Austria ... Sch 18	Indonesia ... Rp 2700	Portugal ... Esc 90
Bahrain ... Din 0.650	Italy ... L 1300	S Arabia ... Rls 6.00
Belgium ... BFr 38	Japan ... Y550	Singapore ... S$4.10
Canada ... C$2.00	Jordan ... Fils 500	Spain ... Pta 110
Cyprus ... C£0.60	Kuwait ... Fils 500	Sri Lanka ... Rup 30
Denmark ... DKr 7.25	Lebanon ... L£6.00	Sweden ... Skr 6.50
Egypt ... E£1.00	Luxembourg ... LFr 38	Switzerland ... SFr 2.20
Finland ... Fmk 6.00	Malaysia ... Rls 4.25	Taiwan ... NT$65
France ... Fr 6.00	Malta ... Pes 300	Tunisia ... Din 0.600
Germany ... DM 2.20	Morocco ... Dh 6.00	Turkey ... L 210
Greece ... Dr 70	Netherlands ... Fl 2.50	U.A.E. ... Dh 6.50
Hong Kong ... HK$12	Norway ... Nkr 6.00	U.S.A. ... $1.50
India ... Rup 15	Philippines ... Pes 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,640 Tuesday June 4 1985 D 8523 B

Caracas takes its funding show on the road, Page 4

World news

Thatcher lists more curbs on soccer

UK Prime Minister Margaret Thatcher announced new curbs to restrict soccer violence, including a ban on alcohol in coaches to matches and an extension of police powers to prevent disorder.

She promised to help Belgium bring to justice British fans who were involved in causing the Brussels riot in which 38 people were killed.

European sports ministers will decide on joint measures at a meeting in September, said the Council of Europe. Page 6

MiGs hit Pakistan

The Pakistan army said eight MiG-23s crossed the border from Afghanistan and mounted the heaviest raid for 17 months, near Swir.

Gdansk trial uproar

There was more uproar when the Gdansk trial of three Solidarity leaders resumed after 10 days. They said they were being denied the right to put their case properly. Page 2

Iraq 'hits' terminal

Iraq said its fighters hit Iran's Kharg Island oil terminal, destroyed a military camp near the border and attacked a large petrochemicals complex at the head of the Gulf.

Border tensions

Diplomatic relations between Costa Rica and Nicaragua are close to being severed after a border incident in which two Costa Rican guards were killed. Page 4

Prisoners shot

Brazilian police shot dead eight prisoners and wounded seven more during an attempted breakout from Campinas prison near São Paulo.

Sri Lanka attack

Gunmen killed at least 13 people in an attack on a bus in Sri Lanka's Eastern province.

Bleak job prospects

Job prospects for young people living in the 10 EEC countries are becoming bleaker, the Community's statistics office, Eurostat, said.

Musical purge

Libyan crowds burned thousands of musical instruments in an officially sponsored campaign against Western culture.

Police raid hospital

Four policemen and a patient were killed when Salvadorean police and security forces stormed a government hospital in San Salvador to crush a strike.

Labour peer dies

Lord George-Brown, a former British Labour Foreign Secretary, died at the age of 70 after a long illness. Obituary, Page 6

Australian boost

Australia said it is to boost immigration to provide more workers for its growing economy.

Naples killing

The mother of a gangster who turned state's evidence at a massive trial of members of the Camorra, or Naples mafia, was killed by a bomb explosion.

Smuggling charge

A West German man was arrested in Reykjavik airport on charges of attempting to smuggle falcons – Iceland's national symbol – out of the country.

Stone Age expedition

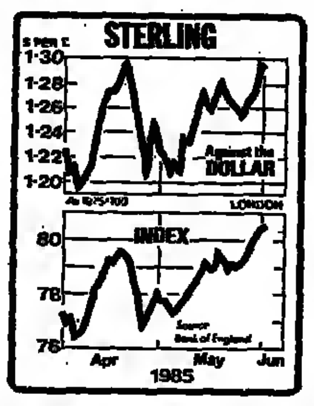
Eight men and a woman left Bali, Indonesia, in a Stone Age canoe, on a 6,400 kms voyage across the Indian Ocean to Madagascar, without even a compass.

Business summary

Interest rates fall in UK as £ rises

STERLING rose 0.8c in London to close at $1.2945, benefitting from a weaker dollar and the relatively high level of UK interest rates. The pound's strength brought a fall in UK interest rates and City of London speculation of a small base rates cut by leading banks in the coming weeks.

It also rose to DM 3.9475 (DM 3.9325) and FFr 12.015 (FFr 12.0075) but was unchanged at SwFr 3.315



and fell to Y321.25 (Y323.0). The pound's exchange rate index rose 0.2 to 80.5. Page 39

GOLD closed unchanged at $316 on the London bullion market yesterday. It opened at $317.25 and touched a peak of $319 and a low of $313.75. A gradual improvement by the dollar during the day pushed gold down from its peak. Page 38

WALL STREET: The Dow Jones industrial average closed 4.48 down at 1,310.93. Section III

LONDON stocks were firmer, taking their cue from gilts. The FT Ordinary share index was 8.2 higher at 1,010.7. Section III

TOKYO shares suffered their ninth sharpest drop ever. The Nikkei-Dow market average plunged 218.06 to 12,473.41. Section III

BRITAIN is to offer Indonesia aid on soft loan terms, breaking with recent policy at a meeting of Western donors starting in the Netherlands today. Page 4

MEXICAN GOVERNMENT raised the minimum wage by 18 per cent, resisting union pressure for a 30 per cent increase. Page 4

EEC BUTTER stocks last month topped 1m tonnes despite the cut-price sale of 120,000 tonnes to the ice cream and pastry industries. Page 38.

JAPAN: All but one of Japan's leading five pharmaceutical companies showed heavy falls in earnings for the year to March. This was largely due to a four-year cumulative 46 per cent levy on prices at which the Government buys drugs. Page 19

FOUR of Japan's major shipbuilders suffered setbacks in pre-tax profits last year due to intensified competition in plant exports and unprofitable orders in their backlogs. Page 18

NATIONAL SEMICONDUCTOR is to cut 1,300 U.S. and European jobs and will not proceed with a wafer fabrication plant in Oregon. Page 16.

PHB Weserhütte, the West German bulk materials handling group has doubled incoming orders in the first five months of this year but expects total orders in the region of 1984's DM 950m. Page 17

STANLEY Works, the U.S. hand tools group is looking at six companies, one in Europe, as potential acquisitions. The company is focusing on DIY and professional/industrial tools for further growth. Page 18

WE apologise to readers for the absence of statistical material on the commodities and the foreign exchange pages. This is due to an unauthorised union meeting last night by a section of the clerical branch of Sogat '82 at the FT in London. Some material was also unavailable for the key market monitors in Section III as a result of a British Telecom communications failure.

UK details plans for overhauling state pensions

BY MAX WILKINSON, ECONOMICS CORRESPONDENT, IN LONDON

BRITAIN'S state-run earnings related pension scheme, established with bipartisan support in 1978, is to be phased out and replaced by compulsory private schemes, the Government proposed yesterday.

The three-volume Green Paper (discussion document) on social security suggests that all employers should be obliged to contribute to their employees' pensions. A minimum of 4 per cent of earnings would be paid into a company pension fund or into an approved scheme chosen by the worker. The employer would contribute at least half of this.

The Green Paper, which is the fruit of two years' work, also proposes a major shake-up of the present system of means-tested social security benefits.

Mr Norman Fowler, the Social Security Secretary, told the House of Commons yesterday that his proposals would bring "the most substantial changes in income-related support for 50 years" and would for the first time give equal support to those in and out of work.

The Labour Party denounced the plans as an erosion of the fundamental principles of the welfare state. Mr Michael Meacher, the party's social security spokesman, said the phasing out of Serps would be "a betrayal of the unequivocal pledge given by the Prime Minister (Mrs Margaret Thatcher) three weeks before the last general election."

After a series of vigorous arguments between Mr Fowler's Department of Health and Social Security and the Treasury, it has been decided to nmit all the figures which might have shown the medium-term costs and benefits of tha proposals.

Instead, the Green Paper concentrates on general principles, emphasising the complexity of the present social security system and the soaring cost of pensions in the next millennium.

It estimates that by the year 2034, the cost of the basic retirement pension will have risen from the present £15bn a year to at least £23bn at current prices; earnings-related pensions would add a further £45bn if the system were left unchanged, it says.

The Government, however, has stopped short of immediate abolition. All existing rights will be honoured, while men over 50 and women over 45 will be allowed to continue in the scheme. Younger workers will have to look to the private sector to top up the basic retirement pension, which will remain in its present form.

It is proposed that the present option to contract out of the state scheme should be ended, and those who are at present contracted out into private sector schemes will face additional contributions. Those contracted in will pay less to the state, but the compulsory payment to a private topping-up scheme will more than match this reduction.

The Green Paper says that it is aiming at a partnership based on the "twin pillars" of the basic state pension and increased personal provision, as well as reducing the burden on a future generation.

An important principle in the scheme would be that the benefits of private pension arrangements, including the part arising from the employers' contribution, would be the personal property of the worker. "That additional pension will be his own investment for his retirement, not a promissory note to be presented to a future generation."

The main proposals were given an initial welcome by the Confederation of British Industry (CBI), the

Continued on Page 16

Details, Page 9; Editorial comment, assessing the proposed changes, Page 14; Lex, Page 16

Greek Socialists win by surprising majority

BY ANDRIANA IERODIACONOU IN ATHENS

JUBILANT Greek Socialists were still celebrating last night the unexpectedly clear-cut election victory which has given Dr Andreas Papandreou's Pan Hellenic Socialist Movement (Pasok) a second four-year term of office.

With only a handful of votes yet to be counted, Pasok yesterday had polled 45.82 per cent to the conservative New Democracy Party's 40.84 per cent. The pro-Moscow Communist Party, the KKE, saw its vote fall to 9.89 per cent, while the EuroCommunists polled a tiny 1.84 per cent.

Complaints from both the conservatives and the Communist opposition that Dr Papandreou had deployed unfair election tactics did nothing to dull the Socialists' ecstatic street celebrations in the early hours of yesterday morning. Carloads of supporters waving green party flags careered through the city sounding their horns in joy over Sunday's election triumph.

Dr Papandreou, who will see President Christos Sartzetakis today, said that his party had triumphed in a contest between "the forces of democracy, progress and change and the forces of reaction, dependence and authoritarianism."

The Socialists unexpectedly strong majority came as a surprise to observers, who were generally expecting a Pasok victory but with a much smaller margin. It was attributed to a swing of pro-Moscow Communist and EuroCommunist voters, who responded to Dr Papandreou's campaign appeal to vote Socialist to make sure of keeping the right out of power.

The KKE and the EuroCommunists together lost about 3½ per cent compared with the 1984 European Parliament election results, the most recent indication of national political seotiment in Greece. Virtually all of this vote appears to have gone to Pasok.

The results allow the Socialists to form an autonomous government with 161 seats in the 300-member parliament. New Democracy gained 125 seats, the KKE 13 and the Euro Communists one – a relative success given that they did not succeed in winning any seats in the 1981 general election.

Greek poll reaction, Page 2; Editorial comment, Page 14

Finance groups queue up for place in London gilts market

BY JOHN MOORE, CITY CORRESPONDENT, IN LONDON

SOME 31 financial groups are seeking to become dealers in a restructured market for British Government securities, the Bank of England revealed yesterday.

The bank said it had reviewed applications from 31 groups for places in the new market and had received indications from those seeking to become dealers that they would be putting up between £600m and £700m ($768m and $896m) in total capital.

The bank is now giving those groups which have applied two weeks to change their minds, in case they are deterred by the amount of new capital coming on to the gilt-edged market. It is estimated that there is at present between £100m and £150m in the gilt-edged market.

In London yesterday there were widespread predictions that competitive pressures caused by the number of players could lead to a bloodbath in the gilts market. "My worst fears are realised," said Mr Richard Lloyd of Hill Samuel. "There are too many people playing the game." Those who have applied

CAPITAL DISTRIBUTION

Number of firms	Capital size (£m)
5	Up to 10
12	10 to 20
10	20 to 30
4	30 and above

are understood to have given targets of their eventual market share which amount to as much as twice the market which is available.

Although the bank has not named the dealers it is known that at least 10 U.S. banking and financial groups have applied. They include Security Pacific, Citicorp, Chase Manhattan, Shearson Lehman/American Express, Drexel Burnham Lambert, Merrill Lynch, Bankers Trust, Goldman Sachs and E. F. Hutton.

More recently, Prudential Bache has forged a link with Clive Discount, the UK discount house, to become a market maker in gilt-edged securities.

Orion Royal Bank, the merchant banking arm of Royal Bank of Canada, is understood to have applied through its link with Kitcat & Aitken, a Londoo broker. Others in the list include Hongkong and Shanghai Banking Corporation, through its link with James Capel, and Union Bank of Switzerland, through its link with Phillips & Drew.

Among British groups proposing to enter the market are Mercury International, Midland Bank, Barclays Bank, Lloyds Bank, Mercantile House, National Westminster, Baring Brothers, Cater Allen, Union Discount, Gerrard and National, Morgan Grenfell, Hill Samuel, Shroders and Kleinwort Benson. No Japanese securities house has applied for membership.

As many as 60 financial groups are understood to have approached the Bank of England to explore the possibilities of becoming a dealer in the new market over the past year or so. But the number of possible applicants has been dwindling as big mergers of securities firms has been taking place in London, and others have changed their minds.

Continued on Page 16

Opec calls emergency meeting as spot prices fall

By Ian Hargreaves in London

OIL spot prices fell by around 30 cents a barrel yesterday as the Organisatinn of Petroleum Exporting Countries (Opec) called an emergency session of its full ministerial council for later this month.

The meeting will take place in Geneva on June 30 and will attempt to find ways of stemming the declina in oil prices, which is threatening the fragile price structure agreed by Opec ministers in January.

In the spot market, the news of the meeting steadied the tone during what one trader called "an extremely hard-selling day." The price of Brent Blend (the main North Sea crude) for July delivery fell from $27.10 to $26.85 a barrel. For forward months, Brent is trading at between $26.35 and $26.45. Arabian Light, which is in short supply because of Saudi production curbs, fell about 10 cents a barrel to $26.70.

Tha decision to bring fnrward the next full meeting of Opec ministers from late July to the end of this month was taken at a meeting of nine Opec ministers at the Saudi Arabian resort city of Taif.

An attempt was apparently made to gather all 13 ministers for the Taif meeting, which had originally been intended as a routine session of two Opec sub-committees. Only in the presence of all ministers could the meeting have ben turned into an extraordinary meeting with the power to take decisions on prices.

Saudi Arabia is keen to force a reduction in the price of Arabian Heavy crude, which was raised by 50 cents a barrel to $26.50 under the last Opec pricing agreement reached at the turn of the year. That agreement cut the price of Arabian Light by $1 to $28 a barrel, at a time when heavy crudes were in demand because of the UK coal miners' strike.

The Taif meeting was apparently an occasion for some plain speaking by Sheikh Yamani, the Saudi Oil Minister, whose country is currently producing less than 3m barrels a day (b/d) of oil, 1.3m b/d less than its entitlement. Saudi production has been curbed partly to compensate for over-production by other Opec members and partly because Saudi customers are simply refusing to lift oil at above – market prices.

The Saudis' bid for tighter production restraint by other members and for lower heavy crude prices is likely to be the focus of the Geneva meeting although the rapidly deteriorating oil market could well force ministers to consider an across-the-board price cut.

European plan to win star wars orders

BY DAVID MARSH IN PARIS

LEADING EUROPEAN aerospace and electronics groups are proceeding more quickly than European governments over the U.S. star wars plan by co-ordinating positions to win maximum orders from the programme, it emerged at the Paris airshow yesterday.

Mr Jean-Luc Lagardere, the chairman of the French state-controlled defence group Matra, put forward the idea of a European industrial "club" to respond to the U.S. invitation for Strategic Defence Initiative (SDI) participation.

M Lagardere, who said Matra had already had contact in Washington with the Reagao Administration's SDI organisation, is to discuss a possible common line in a meeting today with Dr Hanns Arnt Vogels, the chairman of Messerschmitt-Bölkow-Blohm (MBB) of West Germany.

The Matra line is broadly supported by British Aerospace. Sir Raymond Lygo, the managing director, whn said BAe had also already contacted the U.S. Administration and U.S. companies over SDI participation, said yesterday that he thought sharing information with European companies over SDI possibilities was a good idea.

"A lot of money is going to be spent on SDI," said Sir Raymond. "We can't leave a market that size unexplored." He thought BAe could provide expertise in fields like battle management, weapons guidance systems and software.

Dr Vngels visited Washington last month to discuss a possible MBB contribution to the U.S. programme. A further MBB delegation is due to gn there later this mnnth.

MBB is anxious to offer its expertise in a secret high powered tactical laser weapon capable of shooting down aircraft from tanks. It also wants to offer experience in surveillance systems, projectile launching and sensors knowhow which MBB believes eventually could serve towards building a European ballistic missile defence.

M Lagardere, whose company is 51 per cent-owned by the French state, yesterday issued the strongest French statement so far in favour of SDI participation. He told a press conference this could take place bilaterally, in co-operation with U.S. companies, or through European industrialists working together, adding that European companies would bave a stronger position in avoiding mere subcontracting roles if they acted jointly.

President François Mitterrand has ruled out official French participation in SDI on political grounds. M Lagardere stressed that any possible Matra-SDI work would be subject to Government approval, al-

Continued on Page 16

Arms chiefs fail to end fighter impasse

BY DAVID MARSH IN PARIS

ARMAMENTS procurement directors from five European governments meeting in Paris yesterday failed to find solutions to break a deadlock over the planned European fighter aircraft, bringing the project closer to possible break-up in the next few months.

The officials – from France, Britain, West Germany, Spain and Italy – met airframe builders from the five countries to try to find common ground over specifications and work-sharing ahead of a crucial meeting of defence ministers in Londnn later this month.

Although the room for compromise bas not yet been exhausted, the plan to build about 1,000 fighters to renew European air forces in the 1990s, has been stalled for several months, above all because of differences between Britain and France.

Participants said that yesterday's meeting amounted to little more than the restatemeot of countries' existing views. France remains in favour of a lighter, lower-thrust jet fighter for both military and economic reasons – a view opposed, in varying degrees, by the other four nations.

The stalemate comes in spite of apparent compromise at the five defeoce ministers' meeting in Rome last month at which agreement was reached on a basic fighter weight of 9.5 to 9.75 tonnes and differences over engine thrust were narrowed.

Yesterday's meeting gave rise to confusion over the exact definitions on which the Rome compromise was struck.

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Korea to order three Airbuses, U.S. airline buys BAe jets, Page 4

CONTENTS

French companies to try making interferon in space

BY DAVID MARSH IN PARIS

FRENCH PHARMACEUTICAL companies have signed agreements on the use of orbiting space platforms for fabricating materials in weightless conditions, the first time that European industry has shown interest in using future space factories.

The accords, announced at the Paris Air Show, came as the European Space Agency (ESA) yesterday signed a formal memorandum of understanding with the U.S. National Aeronautics and Space Administration (Nasa) over a joint project to design the $12bn manned U.S. space station planned for 1994.

Roussel Uclaf, the French pharmaceutical group, majority-owned by Hoechst of West Germany, has agreed with Matra, the French defence and electronics group, to try to produce interferon in space from 1987. The material, with potentially important anti-cancer properties, would be produced using electrophoresis, under which chemicals are separated with electrical fields.

Separately, the French National Space Agency, CNES, announced an accord with Aerospatiale, the national aerospace group, Roussel Uclaf, Rhone-Poulenc and Elf Aqitaine Sanofi to produce crystals in space for biotechnology purposes.

Several U.S. companies in metallurgy ond pharmaceuticals have already carried out fabrication tests in the vault of the U.S. space shuttle—the means which will be used by Matra and Roussel Uclaf for interferon. But European companies up to now hava been relatively slow to show interest.

The ESA-Nasa agreement centres on a European laboratory unit called Columbus which would plug into the core of the space station.

Both Professor Reimar Luest, director general of the ESA, and Mr James Beggs, administrator of Nasa, yesterday tried to play down the danger of differences over the key problem of European access to U.S. space station technology that could be classified because of military relevance.

Upsurge of Eta violence spurs Basque protests

BY TOM BURNS IN MADRID

THE UPSURGE of Basque separatist violence has prompted o backlasb against Eta, the separatist organisation, spearheaded by the Basque autonomous government which yesterday organised a silent mass demonstration in the centre of Bilbao.

The rally was the first of its kind to be sponsored by the Chief Minister, Sr Jose Antonio Ardanza, who was appointed by the Basque Nationalist Party (PNV) to bead the outonomous government at the beginning of this year.

Sr Ardanza's first months in office have been marked by an increasingly strong stand against Basque extremism and by an unprecedented degree of harmony and collaboration between the regional government and the central odministration in Madrid.

He has gained considerabla ascendancy since January over the PNV rank-and-file and over Basque society as a whole. In Madrid, Sr Ardanza is viewed as o cornerstone in the long-standing policy of isolating the gunmen.

The Bilbao demonstration was supported by all political groups save the extreme nationalist coalition Herri Batasuna (Popular Unity), which octs as Eta's political front.

In Madrid yesterday, Sr Felipe Gonzalez, the Prime Minister, endorsed the rally, saying it was necessary to retake "the initiative against the threat of terrorism."

The demonstration was prompted by an upsurge of Eta violence that claimed nine lives, six of them of policemen, during May. The outbreak is viewed by security officials and by Basque politicians as a demonstration by the separatist organisation of its continued firepower despite French-Spanish co-operation against the terrorists.

Investment recovery likely to continue in Denmark

BY HILARY BARNES IN COPENHAGEN

THE STRONG recovery in Danish manufacturing investment is likely to continue this year, o Bureau of Statistics survey suggests. Investment at current prices is forecast to increase by 40 per cent this year, after a 43 per cent rise in 1984. This will double the level of investment from DKr 7.1bn (£508m) in 1983 to DKr 14.2bn in 1985.

The investment recovery was sparked by the non-Socialist Government's incomes policy, which reduced the rate of wage inflation from 10 per cent in 1982 to abont 4.5 per cent last year and an expected 2 per cent this year.

The biggest increase in investment this year will be 63 per cent in the intermediate goods industries, with a rise of 46 per cent for capital goods and 12 per eent for consumer goods.

Investment in machinery sector will rise by 45 per cent and in chemicals by 53 per cent. In the food and beverage sector it will go up by only 4 per cent after increasing by 49 per cent last yeor.

Strike hits big breweries

BY OUR COPENHAGEN CORRESPONDENT

UNITED BREWERIES, brewers of Carlsberg and Tuborg beers called for finea totalling DKr 12m (about £860,000) against 3,500 unofficial strikers who have stopped production at the group's Copenhagen breweries since May 9.

The dispute is over productivity agreements and wages. It has drained Copenhagen of the city's standard brews, while smaller Danish breweries and importers of German beers are cashing in.

The brewery workers' unions admitted in the labour court yesterday that their strike was in conflict with current wage contracts.

Stock market soars while Kohl's stock declines

BY JONATHAN CARR IN FRANKFURT

THE MORE West Germany's Chancellor Helmut Kohl seems to get into difficulties, the greater the euphoria appears to become on the domestic stock market. While politicians in Herr Kohl's centre-right coalition groan and bicker among themselves, share prices perversely rise to record heights.

What is the explanation for this odd development, which on the face of it might seem to imply that government disarray is o sure formula for business and investor confidence?

After all, within the last three months, Herr Kohl's Christian Democrats hove soundly lost two key provincial elections to the rival Social Democrats (SPD), and in a third state there are real prospects of an SPD government coalition with the rodical Greens.

Herr Kohl's leadership qualities are being questioned even in his own party ranks, and the partners in his government, shocked by the election setbacks, argue openly about the best policy to cobat unemployment, as though they have just begun to notice the problem exists.

All that would seem enoogh to dampen the spirits of entrepreneurs, depress stocks and—maybe—weaken the currency. Yet the D-Mark is growing stronger and may shortly break through the DM 3 barrier against the U.S. dollar.

Shares are also surging upwards, occompanied by all means of ingenious rumours in the market to account for this. It is suggested, for example, that the Kuwaitis are buying up big slices of Commerzbank and Dresdner Bank.

Another unsubstantiated report has it that Deutsche Bank, whose share price has rocketed even more than its rivals, is planning a significant reorganisation of its industrial boldings.

But the surge is by no means confined to bank shares. Those of the vehicle companies rose by nearly 20 per cent last month (hardly surprising, given the profit figures of VW and Daimler Benz); of the chemical concerns by 8 per cent—and so on. Even the bard-pressed building companies' shares look buoyant.

In other words, the stock market upturn is coming across a broad front, and little bave improved, inflation, though rising slightly, is below 3 per cent at an annual rate, there are no strikes in sight and a record visible trade surplus is in prospect.

The key point is that this pretty obvious picture is being recognised most of oll by foreigners (certainly not just Kuwaitis), who have been doing much of the shares' buying.

It is not clear whether foreigners are less aware of Herr Kohl's trials and tribulations, or whether they simply judge the prospects for the West German economy markedly higher than the West Germans do themselves.

If the latter is true, it would be far from the first time. As one foreigner closely connected with a bank in Frankfurt sighed last week: "Of course there is no German crisis, political or otherwise. But naturally the Germans themselves won't believe that."

Commission accuses Greece on insurance

By Quentin Peel in Brussels

THE EUROPEAN Commission yesterday charged the Greek Government with contravening EEC competition laws by discriminating in favour of its own state insurance companies.

The formal announcement of the decision by Mr Peter Sutherland, the Commissioner responsible for competition, confirms the new tough line by Brussels on competition cases, particularly directed at public sector operations.

It means that the Greek Government could now be sued by private sector er non-Greek insurance companies, if it persists in the alleged discrimination.

The decision, publication of which was apparently delayed until after the Greek election, concludes that Greek law offends against EEC competition rules in two ways:

- by insisting that all publicly-owned property be insured by state insurance companies;
- by requiring state banks to recommend their customers to the state insurance companies.

Such measures effectively exclude not only private Greek insurance companies from a substantial part of insurance business, but also insurance companies from other member states, the Commission says.

It states that insurance on public property provides 25 per cent of all annual insurance premium revenues in Greece. As for the importance of the state banking sector, some 80 per cent of all bank loans are provided by that sector.

The Commission decision has been taken under Article 90 of the Treaty of Rome, the first time the Article has ever been used by the Commission. It states that "in the case of public undertakings . . . member states shall neither enact nor maintain in force any measure contrary to the rules" in the Treaty.

Mr Sutherland has made it clear that be intends to enforce competition policy more strictly.

Although it does not provide any immediate penalty for the Greek Government, a failure to change the system could result in the case being taken to the European Court

Le Monde optimism

A period of crisis and internal disagreement ot Le Monde, France's leading newspaper, is over, the editor-in-chief, M Andre Fontaine, told readers in a front-page article yesterday, Reuter reports from Paris. Agreement by shareholders last week on his radical rescue plan had opened a new phase in its 40-year history.

EEC ministers disagree over telecom plan

BY PAUL CHEESERIGHT IN LUXEMBOURG

AMBITIOUS European Commission plans to forge an EEC approach to the introduction of an integrated high speed telecommunications network by the mid-1990s stalled yesterday as soon as they were put before industry ministers.

Problems arose both on a definition of the objectives of the programme and on the role the Community itself should play in fostering the research and development necessary to achieve it. The programme is code-named Race, meaning research and development in advanced communications technology for Europe.

It is based on the notion that total Community investment over the next 10 years will be in the region of Ecu 150bn (obout £900m) for telecommunications. Not only will it emerge as the biggest industry in the EEC, bnt both the networks and the suppliers will suffer irremediably if the market remains fragmented in 10 different parts.

Divergences appeared between industry ministers quickly. Britain and France were prepared to agree to the first stage of the Commission programme. This would cost about Ecu 8m and would be concerned with the definition of needs and some research projects to establish them. But they were not prepared to go along with the next early phase which the Commission proposed. This involves a Community expenditure of Ecu 22m on research projects.

The Treasury view in London is that spending of this nature can perfectly well come out of the overall Community budget for research which was agreed in December last year.

In the case of this early phase, Community spending would also involve private sector contributions to research projects along the lines established in an earlier programme for information technology. Here, the Community and the companies involved pay the bill on a 50-50 basis.

But this Anglo-German approach was sharply different from that attributed to France. France is not evidently interested in the definition phase. That, it considers, would be better handled in the organisation which groups European telecommunications authorities. Instead it wants much more stress on research spending.

Last night Herr Karl-Heinz Narjes, the Commissioner for Industry, was seeking to establish an approach which will reconcile these opposing views, with a view to resuming discussion today when research ministers meet here in Luxembourg.

In a further development, industry ministers gave the Commission a mandate to draw up measures which can be used to protect the intellectual property of semi-conductor manufacturers.

The problem here is that semi-conductors are very expensive to develop but ouite easy to copy. U.S. legislation exists to protect American manufacturers, but there is no comparable EEC measure.

The broad idea would be for EEC and U.S. legislation to match. Although there is general agreement on the need for protection, the UK is taking a relotively cool view because it believes domestic manufacturers are odequately protected by the 1956 Copyright Act.

Industry-university links boosted

BY PAUL CHEESERIGHT

SUSTAINED EFFORTS to tighten the links between industry and universities were effectively started by European Community education ministers yesterday when they gave their backing to European work designed to lead to an action programme.

The "problem was seen ot only as research, but of technology transfer from the laboratory into business," said Sir Keith Joseph, the British Education Secretary, after the meeting in Luxembourg.

Talks yesterday brought to an end consultations the European Commission has been having around the EEC on the topic. Hoping to be armed with a declaration of support from this month's Milan EEC summit, the Commission will present formal proposals for an action programme in July.

No price tag has yet been put on the programme but Commission thinking is leaning towards the spending of up to Ecu 50m (£30m) a year, for six years.

Essentially there would be five elements in the Commission programme. They would include movement of students around the Community within the frame-work of industry-university associations, help for university people to gain industrial experience, more management training programmes, joint training programmes across frontiers, and a more systematic defusion of information.

Education ministers were agreed about the need for better harnessing of the Community's technological potential, but Sir Keith Joseph noted that, in the UK, Denmark and Ireland, this would be done against the background of a contracting budget.

The ministers also came to the conclusion the girls are equal to boys and passed a resolution tothe effect that steps should be taken to see that this inescapable fact is reflected in national education systems. They also thought it would be a good idea to give education a European dimension — more exchanges more foreign language teaching and so on.

Sir Keith Joseph: falling budgets

Threat to Government in Austria recedes

BY PATRICK BLUM IN VIENNA

THE SERIOUS threat to Austria's government coalition of the Socialists and the small Freedom Party (FPO) has eased following a decisive victory by the latter's liberal leadership over nationalist elements at a conference to discuss the party's policy at the weekend.

Dr Norbert Steger, the FPO leader and vice-chancellor, successfully steered the party closer to the centre and strengthened his own position. Challenges petered out as the leadership won clear approval for its programme.

This will end, at least until the general election due next year, an important source of uncertainty about the coalition's viability. Conflicts within the FPO and challenges to Dr Steger's leadership from his party's nationalistic right wing have repeatedly put the coalition at risk. The conference's outcome will please the Socialists, although serious differences remain between the two parties on key policy questions.

Top among them is what to do about the Zwentendorf nuclear power station which has been mothballed since a referendum came out against in 1978. Recent government attempts to find a way to put the plant into operation failed because of FPO opposition.

The party, with an eye to the growing "Green" vote reaffirmed its opposition to nuclear power at the weekend.

Since becoming leader, Dr Steger has made considerable efforts to put a younger and more liberal stamp on his party against strong opposition from traditionalists and nationalists. For the first time in its history the party now has a programme rejecting nationalist excesses, and pan-Germanic temptations, emphasising Austrian patriotism instead.

Solidarity trial judge in clash with defendants

BY CHRISTOPHER BOBINSKI IN WARSAW

THE JUDGE and defendants in the Solidarity trial clashed again when the proceedings reopened in Gdansk yesterday. The trial has been adjourned for ten days because Mr Adam Michnik, one of the three defendants, had a back complaint, and in order for the accused to consult their lawyers.

Along with Mr Michnik, Mr Bogdan Lis and Mr Wladyslaw Frasyniuk are on trial accused of trying to provoke unrest and belonging to an illegal organisation.

During the recess, Sig Bettino Craxi, the Italian Prime Minister, paid a visit to Poland during which he told General Wojciech Jaruzelski, the party leader, of his concern about tha trial.

The judge yesterday did his utmost to prevent the three accused from using the hearing to conduct a political defence and in effect indict the system in Poland. He insisted that they answer questions of fact and as simply as possible.

The three are accused of taking part in the Solidarity underground leadership TKK and calling for a token national work stoppage in protest against price rises this spring. They face a maximum five years in jail.

As the judge, Mr Krzysztof Zieniuk, attempted to impose his will on the three men, first Mr Lis then Mr Frasyniuk refused to continue their testimony. The latter declared that the court was depriving him of the right to defend himself as ha wished. After a break, be refused to return to the court.

Mr Michnik was told be could not use notes and one of his defence lawyers was threatened by the judge with exclusion from the case if he continued to ask questions of the "court and accused."

Western reporters hove been barred from the hearing which is being attended by a handful of relatives and friends

Outlook for Finland favourable, says OECD

By Kevin Done, Nordic Correspondent, in Stockholm

PROSPECTS OFR the short-term development of the Finnish economy remain favourable, according to a survey published today by the Organisation for Economic Co-operation and Development. It forecasts declining inflation, a slight easing in unemployment and a healthy external account.

The report is optimistic that Finland can continue its "rather well-balanced, moderate growth over the coming 18 months or so." During the past five years, the Finnish economy has shown a cumulative growth of 17 per cent, three times the gain achieved by the European OECD countries on average.

This latest survey forecasts a further expansion of gross domestic product of some 3.8 per cent this year, with growth alowing to soma 2.6 per cent in 1986. Finnish economic growth has remained "remarkably stable," says the OECD. Both employment and real wages bave disen steadily.

The Organisation is lavish in its praise of Finland's "explicit medium-term framework" for economic policy-making and says it "numbers among the few countries which have pursued, with apparent success, an active counter-cyclical policy in recent years."

Temporary measures taken to stimulate the economy in 1982 and much of 1983 belped to spare Finland most of the effects of the international recession. In late 1983 and 1984, both monetary and fiscal policy became more restrictiva to help combat inflation and in anticipation of a revival in Western export markets.

Finnish government finances have been strengthened and the OECD expects both the central and general government budgets to be in surplus this year.

The relative size of the public sector is clearly below the OECD average, and Finland has one of the lowest levels of public sector debt of any of the industrialised countries.

The OECD expects both fiscal and monetary policy to ease during the next two years in reponse to weakening demand from Western markets. Economic growth is expected to be fuelled chiefly by domestic demand this year, although foreign demand will be belped by a revival of shipments to the Soviet Union.

The report says that "looking back over the five years which have elapsed since the second oil shock, the improvement in Finland's economic performance, compared with the aftermath of the 1973 shock, is striking. The result is all the more impressive when viewed in relation to the OECD as a whole, or to the rest of Europe."

It urges the Finnish authorities to maintain the momentum of reform of the financial markets, and says the Government bas a good chance of achieving its target of cutting inflation to only 5 per cent by the end of 1985.

Prospects for controlling inflation in 1986 and beyond depend vitally on the next round of national wage bargaining which begins in the late autumn.

Call expected to ease bank secrecy

THE Organisation for Economic Cooperation and Development (OECD) is expected to call soon for easing national bank secrecy laws to allow tax authorities of member countries greater scope for tracking down tax evaders, Reuter reports from Paris.

A delegate at one of the OECD missions here said such access would probably be limited and granted only under certain conditions.

But be added that providing even limited access was a "highly delicate" subject within the 24-nation body, which includes such traditional bastions of banking discretion as Switzerland and Luxembourg.

The OECD secretariat said a report entitled "Taxation and the Abuse of Bank Secrecy" would be discussed by the OECD council in early July, but declined to discuss its contents.

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After the cheering, **Andriana Ierodiaconou** asks how the Socialists intend to run Greece for the next four years

Papandreou wins the chance to consolidate his strategy

SUNDAY'S surprise landslide general election victory for Dr Andreas Papandreou's Pan Hellenic Socialist Movement (Pasok) is rather like a psychological test in which one is asked to judge whether a glass is half full or half empty.

Seen one way, Pasok's 45.8 per cent national lead against the conservative New Democracy Party, the Socialists' only real competitor which won 40.8 per cent of the vote, might be viewed as an overwhelming vote of approval for Greece's first Socialist Government.

This is particularly true in the countryside, where the Socialists' attention to infrastructure projects, pensions and the decentralisation of government bas paid dividends. Pasok held up particularly well in the rural areas and can be said to represent the positive section of Sunday's vote.

The results could also be seen as a negative vote against New Democracy, rather than a positive vote for Pasok. This optical perspective is borne out by the fact that the Socialists, according to an analysis of the results, largely owe their clear majority to a shift of Communist voters from the pro-Moscow Communist Party of Greece (KKE) and the Euro-Communists (KK-es) to Pasok.

Mr Charilaos Florakis, KKE general secretary, angrily accused Pasok after yesterday's vote of seducing "o section of tha left wing vote" through "danger-mongering and the blackmail of ideological dilemmas."

This was another way of saying that Dr Papandreou's chosen campaign tactic of ignoring issues in favour of an emotion-based appeal to left-wing voters to support Pasok in order to insure against a return of the right to power in Greece, worked beautifully.

In this respect, the former conservative President Constantine Karamanlis played right into Dr Papandreou's hands. The Byzantine, eleventh bour appeal issued by the former President last Friday, which cautioned the Greek public not to vote left because this would lead Greece into a domestic and external crisis, only served to remind the Greeks of the kind of unpopular interventionist policies practised in the turbulent 1960s; to remind them in fact of the unacceptable face of the Greek right.

Against this background, Dr Papandreou's invoking of tha political divisions of the 1945 to 1949 civil war and the Colonel's dictatorship of the late 1960s and early 1970s, proved potent.

New Democracy's future seems uncertain in the immediate aftermath of the election. The gloom of party officials was lightened yesterday only by the fact that New Democracy had succeeded in breaking through the psychological barrier of 40 per cent of the vote for the first time since the 1981 general elections and the party's traumatic defeat at the hands of Pasok. New Democracy won 36 per cent in 1981, and managed to climb to just 38 per cent in the 1984 European Parliament elections.

Mr Constantine Mitsotakis's prospects as the leader of the party also appear unclear. Ever since 1981, New Democracy has made a habit of axing leaders in the wake of election defeats; Mr George Rallis bit the dust in this fashion after the 1981 defeat and his successor, Mr Evangelos Averoff, failed to survive the European elections in which New Democracy had also fostered hopes of defeating Pasok.

Sunday's victory brings with it one big problem for the Socialists: the running of the country for the next four years. Precisely because Dr Papandreou chose to avoid issues in favour of polarisation politics in the campaign, there is little concrete indication of precisely what the Socialists intend to do with their mandate, except for a party policy programme released at the start of tho campaign.

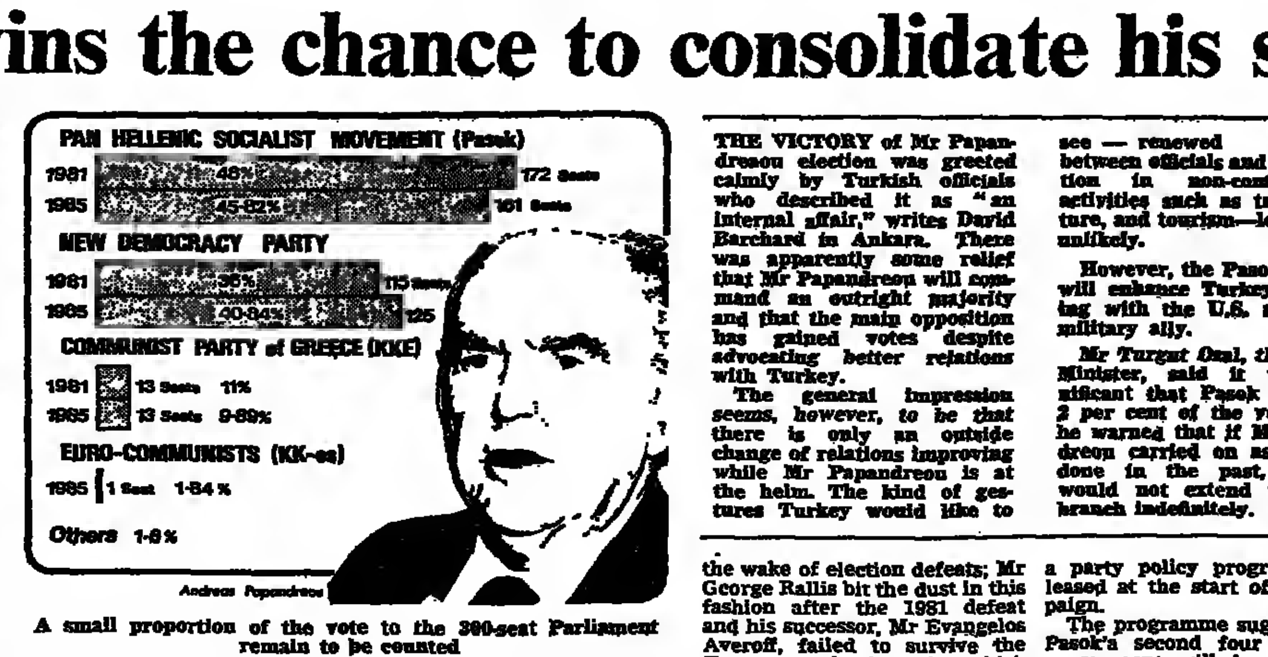
The programme suggests that Pasok's second four years in government will be mch like the first. In tha area of the economy, more of the same means the public sector would continue to play a leading role in the effort towards economic recovery, while wage policies would continue to be relaxed and welfare spending remain at the price of high deficits.

Neutralism would be expected to be a dominant trend in foreign policy. The Socialists pledged to terminate the five-year agreement governing the operation of the four American military bases in Greece, when the deadline comes up in December 1988.

They will also stick to a policy of rejecting a dialogue with Nato neighbour Turkey over a web of territorial disputes in the Aegean Sea, which have troubled the south-eastern flank of the Alliance for more than a decade, until Turkish troops pull out from the northern part of Cyprus.

These policies beg several questions. The economic question is how the Socialists will be able to pursue expansionary politics when both the Bank of Greece and the Economy Ministry have indicated in the past that belt-tightening ought to be on the agenda. The question also arises of how Dr Papandreon intends to handle the problem of Greece's dependence on Washington for military credits and hardware if be goes ahead with the pledge to shut down the bases, which today carry a price tag of $500m (£400m) in military aid for Greece eaeb year.

Dr Papandreou yesterday characterised Pasok's victory as "a triumph." His ability or otherwisa to run the country efficiently will determina whether this triumph turns into o disaster.



A small proportion of the vote to the 300-seat Parliament remain to be counted

THE VICTORY of Mr Papandreou election was greeted calmly by Turkish officials who described it as "an internal affair," writes David Barchard in Ankara. There was apparently some relief that Mr Papandreou will command an outright majority and that the main opposition has gained votes despite advocating better relations with Turkey.

The general impression seems, however, to be that there is only an outside change of relations improving while Mr Papandreou is at the helm. The kind of gestures Turkey would like to see — renewed contacts between officials and co-operation in non-controversial activities such as trade, culture, and tourism—looks very unlikely.

However, the Pasok victory will enhance Turkey's standing with the U.S. as a key military ally.

Mr Turgut Ozal, the Prime Minister, said it was significant that Pasok had lost 2 per cent of the votes, and he warned that if Mr Papandreon carried on as he had done in the past, Turkey would not extend its olive branch indefinitely.

OVERSEAS NEWS

Zhao signs N-plant pact with Britain

By Alain Cass, Asia Editor

BRITAIN AND China yesterday signed an agreement on the peeceful use of nnclear energy aimed at providing a framework within which British companies can promote their exports to the People's Repnblic.

China already has such agreements with France, Italy and West Germany and is negotiating two more, one with Japan and one with the U.S.

The agreement was signed by Premier Zhao Ziyang and Mrs Margaret Thatcher, the British Prime Minister, after discussions at Downing Street last night. The two leaders also signed a hroad agreement on economic co-operation until 1990, replacing the existing pact signed in 1979.

The agreement on the peaceful use of nuclear energy is an important building block in China's attempts to acquire advanced technology from the West. The agreement covers goods, services and technology specifically prohibits the transfer of such technology to a third country.

The delay in ratification of tha Sino-U.S. nuclear co-operation accord, which has become an irritant between the two countries, is due to Peking's refusal, so far, to give America sufficient assurances on the re-export of sensitive technology.

There is a suspicion that China has helped Pakistan in its attempts to develop a nuclear weapons capability.

China's new ambassador to Washington, Han Xu, said in an interview pnblished yesterday that, despite earlier hopes, the nuclear co-operation agreement, initialled in Peking last December by President Ronald Reagan, would not be ready for signing when Li Xiannian, the Chinese President, visits the U.S. in July.

Premier Zhao also met Opposition leaders at the House of Commons yesterday.

Today he is due to meet top British industrialists including the heads of the CBI, the British Overseas Trade Board, ICI, GEC, British Aerospace, Hawker Siddeley, Cable and Wireless, and Simon Engineering.

Although the meeting is intended to be "up-beat"—stressing the potential benefit to both countries for an increase in British exports—the British industrialists may tackle Premier Zhao on the lingering problems of doing business with China.

Christian Tyler adds: one of the most pressing issues for British companies interested in the huge and fast-moving Chinese market is whether the UK Government will start providing China with soft loans.

Despite the opportunity presented by Zhao's visit, there was no sign in Whitehall yesterday that ministers have yet made up their minds.

David Dodwell, recently in the Portuguese colony, examines the run-up to talks with China

Macao prepares for an inscrutable future

"WE ARE a people of discoverers and colonisers who today, without complexes, can assume and review the positive contrihutinos we have given to civilisation and culture," Portugal's President Antonio Ramalho Eanes said in Macao last week.

Macao, one of the final vestiges of Portugal's colonial heyday, was walcoming e Portugese head of state for the first time in a mntual history that stretches hack almost 430 years. This "first" comes just days after Portugal and China agreed to begin formal talks next year aimedt at returning the territory to full Chinese sovereignty.

"We have at times deviated and made mistakes that do not need to be hidden, but we have been able to learn, and blend our parsonality," he said.

In a comment pointed more in hope at the Peking officials who will make up China's negotiating team than to his audiance of Maccanese, mixed race locals who carry Portugeses nationality, he said: "we have respected local habits and customs We did not smash local cultures and lifestyles."

Portugal's negotiations over Macao's future could be easier than Britain's talks with China over the future of Hong Kong. Tha issue of sovereignty—fiarcely fought over in the case of Hong Kong—has already been resolved. Portugal has twice offered to return Macao to Chinese sovereignty (on both occasions to be rehuffed hecanse, from Peking's point of view, "the time was not ripe"). Since 1976 it has defined Macao as Chinese territory under Portuguese administration. There is no deadline hanging over negotiators: Portugal was granted power to administer Mecao in perpetuity.

China aees a blueprint for a settlement over Macao in the Sino-British agreement on Hong Kong's future, ratified thia week in Peking. Some optimists have suggested that the ecrimony and ohduracy that marked much of tha Sino-British negotiations were due to Peking's awareness that concessions made in the Hong Kong agreement would have to be made for Macao and eventually for Taiwan. If thia was the case, then they expect Portugal's negotiations to progress more smoothly; unless Lisbon decides to depart from the Hong Koog script.

There are, however, reasons for fearing Portugal's negotiations in some respects will be more difficult than those over Hong Kong:

● Some local observers suggest that China agreed only reluctantly to compromise over issues in Hong Kong because of its considerable economic valne. They note that Macao has no similar leverage; its economy is barely one-tenth the size of Hong Kong's and the lion's share of Government reveoue comes from a tax on gamhling.

● If China has less reasoo to make concessions to Macao, Portugal is also less well equipped than Britain to put up a fierce defence against what it might see as unreasonable Chinese demands. Its diplomatic service is small, few have experience of China or speak

Mandarin, and few have direct knowledge of Macao or its mainly-Chinese community.

● China's promise that "Hong Kong people will rule Hong Kong" is not easily transferred to Macao. Senior positions in government, the judiciary, and the police are filled either hy contract staff from Portugal, or by Maccanese.

The task of training a caucus of Chinese to fill the vacuum will be formidable: secondary education is limited and the territory's only university—the privately-funded University of East Asia—is no more than an embryo institution.

● The Portuguese legal system used in Macao, staffed exclusively by Portuguese nationals, offers no attractions to the Chinese. Unlike the system of British law (practiced in Hong Kong by Chinese as well as British) which China has agreed to accept after 1997, it is rarely used in international business. Even if China decided to retain it, the task of training Chinese to practice it would be daunting, aince so few speak Portuguese or see any advantage in trying to do so.

It was no accident that the main theme of President Eanes' day in Macao was the need for unity in the Portuguese (which includes the Maccaoese) community. The preseot Governor has been at loggerheads with local political groups since he stepped ioto the territory in 1981, and this has aroused anxiety and irritation among Chinese officials who play a discrete backroom role in decision-making in the territory.

The decisioo that the governor will resign at the end of the year, revealed amid confusion last week, will help to wipe the political slate clean. Bot local political groups were warned that they are likely to pay a high price if factional dispute rather than unity of voice provide a backdrop to negotiations in Peking.

It was also seen as significant that the President did not meet members of the local legislative assembly during hia stay in Macao, but was guest at a lunch hosted by Macao's Chinese Commercial Association. There could be no clearer indication of the political power already wielded on China's behalf hy members of the local Chinese community—a power structure parallel to the formal one overseen by the Portuguese Administration.

It is es yet unclear how seriously the power of Portugal's negotiators will he undermined by the existence of an authoritative Chinese voice in Macao. It may result, however, in them negotiating mainly over the rights of the tiny Portuguese and Maccanese communities which account for about 3 per cent of the population.

Chinese figures in Macao have so far been veiled io their commeots. Ma Man-kei, head of tha Chinese Commercial Association and a member of China's National People's Political Consultative Committee, has called for "stability, harmony and development."

Li Yiu-ki, head of Nam Kwoog company, Peking's informal diplomatic presence in Macao, said of the formal negotiations: "Macao residents' opinions will be relayed to Peking

The ball is in the court of President Eanes and its negotiating team. His "people of discoverers and colonisers" will have to review hard the "positive contribntions" they have given to civilisation and culture. Otherwse, unsentimental China may choose to respect local habits and customs less than Portugal would like.

Damascus presses factions to accept Lebanon peace plan

BY TONY WALKER IN CAIRO

SYRIA IS engaging in extensive behind the scenes discussions with all parties to the Lebanon dispute in its efforts to implement a comprehensive plan for political and security reforms.

Mr Abdul Halim Khaddam, Syria's Vice-President, who has immediate responsibility for Lebanon under the direction of President Hafez Assad, held his second meeting in as many daya yesterday with representatives of the Palestine National Salvation Front (PNSF) in an effort to resolve the crisia in Beirut's Palestinian refugee camps.

Fighting broke a shaky weekend ceasefire yesterday as explosions and gunfire were heard from Chatilla and Bourj al-Barajneh camps.

Difficultiea remain over disarming Palestinian fighters lo the camps with PNF officials insisting that Palestiniana should not be disarmed unless it is part of an overall security arrangement under which their attackers are likewise deprived of weapons.

The Palestinians are also demaoding they he left in charge of securlty of what remains of the camps after the two-week bombardment of Amal Shi'ite militiamen.

Meanwhile, Syrian consultations are continuing with representatives of Lebanese factions as President Assad seeks to implement his grand design for a Syrian-fashioned Lebanon free of the bitter sectarian disputes that have torn the country apart in more than 10 years of civil war. Diplomats here say it is unlikely Syria will aend its army into Beirut and other trouble spots such as the Christian town of Jezzine in the south except as part of an overall security arrangement.

They say there haa been no significant mobilisatioo of Syrian troops that would suggest ao imminent extension of Syria's military role in Lebanon. There are some 30,000 Syrian troops statiooed in the Bekaa Valley, east Lebanon, and in the north near Tripoli.

David Lennon adds from Tel Aviv: Israeli troops raided a Shi'ite village in southern Lebanon yesterday, arresting dozens of residents and destroying at least two houses, according to UN officials in the area.

The village of Majdel Salim lies close to the Israeli horder within the strip of land inside Lebanon which Israel regards as a security huffer zone designed to keep hostile forces away from the Israeli border towns and villages.

Peking food price reform goes awry

By Robert Thomson in Peking

THE Chinese Government's politically-sensitiva move to remove food subsidies and let the market take care of itself has suffered a setback.

Allowing market forces free rein in Peking last month has resulted in retail prices of vegetables rising to unacceptably high levels, and the Peking Government has intervened in the market to cut prices.

Complaints from Peking residents about fast-rising prices and shortages of vegetables have forced the municipal government to re-introduce food subsidies, the English-language China Daily reported yesterday.

The subsidies, removed on May 10, have been reintroduced only on the more popular vegetables, such as cabbages, cucumbers and tomatoes, but their reintroduction is a setback for the Government. Zhao Ziyang, the Chinese premier, has often remarked that freeing markets is an escential part of China economic reforms.

Peking was the 23rd Chinese city to experience food price reform. But the effect was particularly severe because the city is far from self-sufficient, and large quantities of food have to be imported from other areas.

India, Sri Lanka agree need to counter Tamil violence

BY JOHN ELLIOTT IN NEW DELHI

INDIA and Sri Lanka yesterday agreed that immediate steps should be taken to defuse the ethnic violence in Sri Lanka and to move towards a political settlement of the island's minority Tamil community's devolutionary demands.

Although no details were announced after two days of talks between the two countries in New Delhi, it appears that India is willing to take tougher measure against extremist Sri Lankan Tamils operating from its southern city of Madras, and that Sri Lanka is prepared to make a fresh bid to obtain a peaceful settlement.

But both countries have indicated similar intentions in the past and have then been prevented from taking any significant steps by their own domestic priorities.

India is constrained by support in its southern states for the Sri Lankan Tamils, whereas the Sri Lankan Government is restricted by its own anti-Tamil right wing politicians and Buddhist priests.

Mr Junius Jayawardene, president of Sri Lanka, repeated offers he has made before of an amnesty for Tamil extremists who laid down their arms and of new district and other regional councils.

Speaking as he left New Delhi airport for Sri Lanka, he also confirmed that India had offered to help solve the ethnic crisis.

Mr Romesh Bhandari, Indian permanent foreign secretary, said talks between Mr Jayawardene and Mr Rajiv Gandhi Indian Prime Minister, had been "sincere and useful." Mr Jayawardene had gone home "not unhappy" he declared.

For Mr Gandhi who leaves tomorrow on a major international tour, the two-day visit by Mr Jayawardene has been a diplomatic coup. By enticing the elderly Sri Lankan President to New Delhi and then taking him on Sunday to visit the cyclone-hit areas of Bangladesh, he has begun to build up his personal stature as the prime minister of the dominant country of South Asia.

● Gunmen killed at least 12 people in an attack on a bus in renewed violence in Sri Lanka's Eastern Province early yesterday, a government spokesman said, Reuter reports from Colombo.

Most Japanese employees are happy with their jobs

BY JUREK MARTIN IN TOKYO

A COMFORTABLE majority of Japanese employees remain satisfied with their present jobs and would like to be able to continue working after the age of 65.

These are the principal findings of a survey of attitudes to work carried out recently by the Ministry of Labour of some 4,100 wage earners, all 30 years old and above, in some 650 companies based in 11 of the largest Japanese cities.

On the surface, the survey tends to give the lie to suggestions that the Japanese are becoming less diligent or loyal in their approach to employment. However, it must be pointed out that Japanese polls are often far from infallible guides and that this one, in confining itself to the over 30s, did not address the possibility of changing attitudes among the young, which has shown up elsewhere.

This survey found that 68 per cent were generally satisfied with their positions, with the level of satisfaction rising according to age, which, in the Japanese employment system usually means seniority.

No less than 69 per cent said they wanted to go on working after the age of 65, with two-thirds of those saying they wanted to do so principally to use their abilities rather than simply to make ends meet.

WORLD TRADE NEWS

UK switches policy to offer Indonesia soft loan finance

BY CHRISTOPHER SHERWELL IN JAKARTA

BRITAIN is to break with recent policy and offer capital aid on soft loan terms when Western governments and multilateral agencies pledge assistance for Indonesia at a donors' meeting starting in Amsterdam today.

The foreign aid pledges cover the next 12 months and are expected to reach $2.4bn, equal to last year's record level and in line with recent World Bank recommendations.

The donor group, known as the Inter-Governmental Group on Indonesia (Iggi), is Indonesia's most important source of external finance. Its positive response will be an endorsement of the austerity pursued by Indonesia – Asia's principal oil and gas exporter – since the world petroleum market weakened.

More than 70 per cent of last year's assistance came through the World Bank and other multilateral agencies that are members of Iggi. Of the 13 government members, the largest bilateral donor was Japan with $321m, followed by the U.S. with $116m.

Britain pledges $5.8m, mostly for technical assistance. This year, however, its direct offer will not only be higher – double or even treble the 1984 figure – but will include soft loan finance.

This marks a new flexibility in prevailing policy, because in recent years British aid to Third World countries has only been given as grants. It also follows the visit to Indonesia in April of Mrs Margaret Thatcher, the UK Prime Minister, as part of a whirlwind South-East Asian tour.

That visit was widely seen as an acknowledgement that Britain had paid insufficient attention to Indonesia in the past. While in Jakarta, Mrs Thatcher told President Suharto that Britain wanted to work more closely with Indonesia and to co-operate in the transfer of technology.

The aid move, by raising Britain's profile in Indonesia, seems to reflect that and is likely to help UK exporters at a useful time.

Christian Tyler, Trade Editor, in London adds: It was confirmed in London yesterday that Britain was to make a statement about new aid plans to Indonesia when the group of donor countries meets.

In 1983, the last year for which figures are published, total British aid to Indonesia was worth £12.4m ($15.8m), the largest sum for any East Asian country.

New move on Mexico steel mill problem

By Ian Rodger in London

FRESH ATTEMPTS are being made to ease the financing of a huge steel plate mill being built in Mexico by Davy McKee, the UK plant contractor.

However, officials in London doubt that the problem will be resolved before or during the state visit of Sr Miguel de la Madrid, the Mexican President, to Britain next week.

Davy McKee won the $300m contract, the largest ever awarded by the Mexican public sector, in 1982, but soon afterwards work on it was slowed because of the country's financial difficulties. Last autumn, Mr Paul Channon, the UK Trade Minister, said while on a visit to Mexico that he had been assured that work would continue. The project is part of the $2.8bn Sicartsa state steel development at Lazaro Cardenas on Mexico's Pacific coast.

Davy McKee said yesterday that work was continuing on the plate mill project. "However, over the course of the past few weeks, discussions have been held on various options designed to alleviate current financing problems," Davy said.

Quentin Peel on the obstacles to opening up the EEC's capital markets

Financial integration makes slow progress

DEEP IN the cobweb-decked attics where the European Community keeps its plans for financial integration and a free capital market, something is stirring.

It is 23 years since the last substantive action was taken by EEC finance ministers to promote the free movement of capital across the Community.

Today, four of the 10 member states still maintain a panoply of exchange controls prohibiting residents and non-residents from freely transferring assets across their frontiers to other EEC countries. As for the rest, technical, legal and fiscal barriers still stand in the way of anything approximating a common capital market.

In the words of a substantial European Commission report on the subject, now two years old: "The failure to progress towards financial integration contrasts with hard-earned achievements in other fields of Community integration.

In itself, the unit trust move is not that dramatic: agreement is needed on a common supervisory system, as well as acceptance that such investments should be freely traded. More importantly, it would be a symbolic end to years of inaction.

Progress on the unit trust front comes after several other significant rumblings in other parts of the attic. They include:

● The victory of Messrs Luisi and Carbone in the European Court of Justice against fines by the Italian Finance Ministry for transferring foreign currency to pay for tourism and medical bills;

● The renewal by the European Commission of its special permission for France, Ireland and Italy to impose exchange controls, but only under stricter conditions;

● The progress by the EEC stock exchanges (and that of Madrid) towards the establishment of a system to connect their trading floors throughout the Community by the end of the year.

The failure of EEC financial markets to mobilise the savings of European citizens has been spelt out by the European Commission. Gross savings in the Community in 1980 amounted to some Ecu 430bn (£250bn), against Ecu 340bn in the U.S. But total transferable securities issued on the five major markets of West Germany, France, Italy, the Netherlands and the UK was only Ecu 112bn (Ecu 212bn in the U.S.).

The Community's capital market was supposed to have been opened up by two Council directives approved in 1960 and 1962. They classified which transactions should be compulsorily liberalised, which might be restricted on certain conditions, and which could be restricted as member states saw fit.

The first category (schedules A and B) covered mainly direct investments, dealings in quoted securities, trade credits and personal capital movements. The second (schedule C) covered mainly direct investments, dealings in quoted securities, trade credits and personal capital movements. The second (schedule C) covered unquoted securities, unit trusts, and flotation of foreign securities on domestic markets. The last, restricted, category (schedule D) covered mainly short-term capital movements, down to the physical transfer of banknotes.

The let-out for member states was in Articles 73 and 108 of the Treaty of Rome, which allowed them to plead balance of payments disequilibria or sudden capital flight to justify exchange controls on transactions which should have been compulsorily liberalised.

But instead of being allowed only in temporary emergencies, these controls have become virtually institutionalised in the offending states.

The Commission's new assault has three main thrusts.

The first aim is to tighten up on the way in which member states are allowed to impose exchange controls. When the Commission renewed the French approval last December—for the first time since 1968—it did so for only two years before it will have to be reconsidered. It allowed Ireland and Italy just three years.

The squeeze has been having an effect on those countries (Greece is the fourth to maintain such controls, but they are allowed under its transitional EEC membership terms). France has relaxed restriction on French companies investing abroad and allowed traders to cover borrowing in Ecus up to six months' forward. Italy has reduced the compulsory deposits required of Italians buying foreign shares or property.

All three countries, France Italy and Ireland have made special concessions to make it easier for their nationals to invest in loans to EEC institutions.

The exchange controls system has, however, become such an industry, that there is diehard bureaucratic resistance to its dismantling.

The second main thrust of the Commission attack is along the lines of the unit trust initiative: to upgrade categories of investment from schedule C to schedules A and B, from conditional to compulsory liberalisation. A further proposal is expected before the year end, which could cover other unlisted securities, investments in Community institutions, and long-term trade credits.

In addition, there is a proposal to open up the mortgage market, by persuading member states to give mutual recognition to each other's traditional methods of property financing.

The Commission also suggests that even schedule D transactions should be scrutinised where they may interfere with cross-border payments, or movements of capital normally liberalised under EEC law. For this, the EEC Monetary Committee would be involved in surveillance.

For ordinary EEC citizens the most immediate benefits are likely to come from the Luisi and Carbone judgment which has already caused France and Italy to ease exchange controls on the use of credit cards. It means that payments for tourism and medical care cannot be classified as capital transfers, and therefore restricted.

This is the eleventh in the series on European market liberalisation. The previous articles appeared on February 14, February 21, March 6, March 13, March 22, April 1, April 4, April 26, May 10 and May 22.

Canac beats British Rail to win $15m Indian contract

BY JOHN ELLIOTT IN NEW DELHI

BRITISH RAIL'S international consultancy company, Transmark, has been beaten by Canac, part of Canadian National Railways, for a $15m (£11.6m) to $20m contract to advise Indian Railways on the computerisation of its freight operations.

This is the first stage of a $500m to $600m computer and telecommunications project on India's massive railway system. It opens the door for a major order for computers from IBM of the U.S. which withdrew from India in 1978 after a row with the Indian Government over ownership of its operations.

IBM's New York office is finalising two computer orders from India's Oil and Natural Gas Commission and the Computer Maintenance Corporation. They are its first major sales in India since 1978 and are together worth about $20m. IBM has a good chance of winning a much bigger order for the railways because Canac bases its technology on IBM-compatible computers and software.

Canac has received a letter of intent for the order after more than two years of delays by Indian Railways, partly caused by infighting between government departments. It beat the British company because India felt it had greater knowledge of long-haul rail freight operations.

A second consultancy contract is to be awarded for telecommunications on the railways and the World Bank will shortly be releasing funds for other railways modernisation projects.

Italian group wins $150m deal in China

By Alan Friedman in Milan

A GROUP of Italian companies has won a $150m contract to help construct a coal-fired power station in China.

The contract, which was awarded by the China South West Energy Resources Corporation, requires Italian companies to provide construction materials, mining equipment and vehicles to help complete the project.

The contract is only the first part of a larger plan under which the Chinese Government intends to spend a total of $580m. Among the Italian companies participating in the coal project will be Finsider, Italimpianti and Siai-Marchetti.

Korea Air orders three Airbuses in $200m deal

BY DAVID MARSH IN PARIS

KOREAN AIR, South Korea's national flag carrier airline, yesterday signed an order to buy three A300-600 European Airbuses in a deal including spares and equipment, worth $200m (£155m).

The airline, which will take delivery of the wide-bodied jets from 1987 onwards, also took out options to purchase five further aircraft.

The order follows deals already announced at the Paris Air Show from Pan American World Airways and Ansett of Australia.

M Jean Pierson, the Airbus chairman, said that if the success was maintained, the consortium could decide to increase production in 1987 from the low rate of 30 aircraft a year.

Choong Hoon Cho, Korean Air chairman, said the aircraft would partly replace existing A-300 B4 Airbuses in service since 1975.

The A300-600—which entered service in April 1984 and has five airline customers to date—is larger and offers greater operating efficiency than the older A300 range.

Cho said the Airbuses had been chosen to keep the airline's fleet balanced. Apart from the Airbus, it already operates Boeing, McDonnell Douglas and Fokker aircraft.

The new aircraft will be powered by Pratt and Whitney JT9D-7R4H1 turbo-fan engines. Cho said his company was also considering purchasing the new Airbus A320 narrow-body airliner.

Turbomeca and Rolls-Royce in 10-year pact

Rolls-Royce of the UK and Turbomeca of France have renewed for a further 10 years their 20-year-old partnership in the development of a wide range of gas-turbine aero-engines for civil and military aircraft, writes our Aerospace Correspondent.

The agreement has already resulted in the production of over 6,900 Adour jet engines, which are used in the RAF Hawk trainers and light combat aircraft, and in other aircraft such as the Jaguar jetstrike trainer and the Japanese Mitsubishi T-2/F-1 aircraft.

Among engines under development by the joint Rolls-Royce/Turbomeca company is the RTM-322 helicopter engine.

U.S. airline to buy 20 BAe Jetstream 31s

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

BRITISH AEROSPACE has won an order worth $58m (£45m) for 20 of its Jetstream 31 twin-turbo-propeller powered light transport aircraft from Republic Express Airlines, a subsidiary of Phoenix Airline Services, of Atlanta, Georgia.

This is the biggest order so far won by BAe for the Jetstream, and brings total sales of the aircraft to 67, of which 58 have been for commuter and regional airline operators in the U.S.

The 18-seater Jetstream is designed for short-range inter-city and commuter airline operations. Republic Express has already taken delivery of three Jetstreams, and the other 17 will be delivered before next spring.

● Boeing of the U.S. announced at the Paris Air Show that it is to offer airlines an advanced version of its Boeing 747 Jumbo jet, the 747-400, which will have a non-stop range of 7,000 miles with a full payload of 412 passengers.

This will make possible non-stop flights from Singapore to London, New York to Seoul, or Tokyo to Paris, flying west-bound against prevailing head winds.

Boeing is discussing the venture with a number of airlines, and if sufficient orders are received, it will formally launch the programme, with roll-out due in late 1987, and deliveries to customers in late 1988.

AMERICAN NEWS

NY hotel strike threatens to disrupt life for 50,000

NEGOTIATIONS ON a new wage contract agreement for New York hotels resumed yesterday afternoon after a weekend of noisy picketing in the city's first significant hotel strike in 50 years, writes Terry Dodsworth in New York.

Services at many hotels have suffered minor disruptions over the past few days, as guests have been forced, in some cases, to carry their luggage and miss full-scale restaurant facilities. But the effectiveness of the strike is expected to meet its first real test this week, during the routine of conventions and trade shows.

According to the New York Convention and Visitors Bureau, about 50,000 people are due to visit the city for these sort of events this week. Many of these occasions involve extensive banqueting facilities and other services which demand extensive back-up from hotel personnel.

Initial responses from the 45 hotels affected by the dispute indicated that most basic services had continued over the weekend, with administrative employees helping out on jobs normally done by porters or kitchen staff.

The nine-union hotel and motel trades council also claimed that the hotels had brought in large numbers of outside "scab" labour—a charge that brought some violence and several arrests on some picket lines.

The hotels said about 4,000 newly hired workers had been brought in to take over from striking clerks, bartenders, waiters, bellhops and maids.

Several hotels are compensating for the reduced services by giving complimentary or reduce-price buffet meals, although many bars and restaurants have been closed.

Underlying the dispute is a row about wages as well as a new two-tier payments system which is being widely introduced in other service industries. Under this scheme, employees would be paid less.

Hotel workers involved in the dispute earn on average $315 (£244) a week, and had offered to accept a 6.5 per cent a year increase over a four-year period when the talks collapsed.

They had originally demanded 9 per cent a year against a management offer of 4 per cent, which was later increased to 4.5 per cent.

Peter Montagnon examines plans to restructure Venezuela's public sector foreign debt

Caracas takes its funding show on the road

THE CURTAIN goes up this week on one of the longest awaited shows in the history of international banking. Sr Manuel Azpurua, Venezuela's Finance Minister, begins an international tour to present proposals to the country's 450 bank creditors for a restructuring of $21.2bn (£16.96bn) in public sector foreign debt.

The tour marks the culmination of nearly three years' effort by the banks to persuade Venezuela to put its $35bn foreign debt on an orderly footing. Earlier attempts started under former finance ministers, Sr Luis Ugueto and Sr Arturo Sosa, failed largely because of lack of political will in Caracas. This time round, however, bankers reckon the chances of success are high, promising a much-needed boost to flagging morale on the Latin debt front.

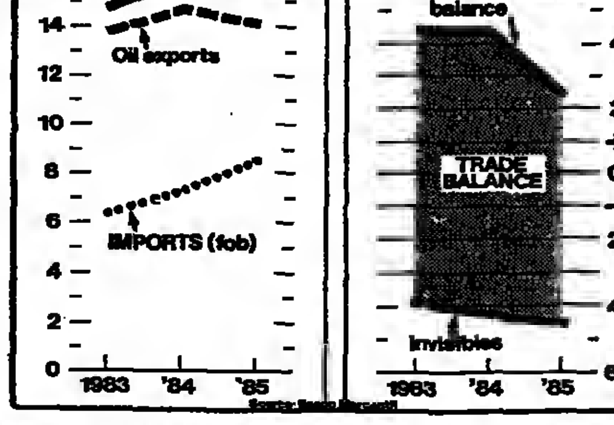
Basic agreement on the current proposals was reached with the advisory committee of leading creditors chaired by Chase Manhattan, Bank of America and Lloyds Bank as long ago as last September. In essence, they provide for debt maturing up to the end of 1988 to be rescheduled over 12½ years at an annual interest rate of 1⅞ per cent over Eurocurrency rates. But it is a measure of the complex structure of Venezuela's foreign debt that it took some eight months for all the details to be agreed.

A fall to $24 per barrel in the price of oil would present Venezuela with a net cost of $1.9bn a year, according to a recent study by American Express International Bank.

Revenues from oil sales would drop by $2.4bn, but this would be partly offset by debt service savings of $420m as interest rates fell on reduced inflationary expectations.

The net cost of a drop to $20 in the oil price would be $2.6bn, or 46 per cent of the country's foreign exchange reserves, Amex estimates.

Venezuela would still be better off than Algeria, Gabon and Nigeria whose reserves would be more than wiped out by such a fall, but Mexico would suffer less.



Now Sr Azpurua is hoping for a rapid ratification of the deal by all the country's creditor banks so that the first contracts can be signed as early as September.

Venezuela is the first country to reschedule its debts without a formal economic programme agreed with the International Monetary Fund, but it is also the only major borrower which has not sought a cent in fresh credit from its bankers since the debt crisis started in 1982. If they agree to the new proposals, banks can look forward to a steady stream of repayments starting with $750m as soon as the rescheduling is implemented.

Indeed, Venezuela differs markedly from Mexico, which has also agreed a multi-year rescheduling with commercial bank creditors. While the Mexican agreement was specifically designed to pave the way for a resumption of Mexican borrowing on the international capital markets, Venezuela can continue if necessary to get by without fresh funds.

It does not only boast substantial oil revenues which made up more than 90 per cent of last year's $16bn export earnings. Its total debt is less than half the size of Mexico's, which means that its interest costs estimated at some $4.5bn a year are correspondingly lower. Bankers argue that its high foreign exchange reserves of about $13bn, the largest of any Latin American country, provide a sizeable cushion against a fall in the oil price.

Sr Jorge Marcano, Director of Public Credit, is adamant this means that Venezuela will not have to return prematurely to the loan market. "We want to wait until the market is ready," he says.

New borrowing would in any case only be used for projects which produce an identifiable return in foreign exchange. "We don't want a repeat of the old story of borrowing to cover short term cash needs of public sector entities."

But if Venezuela can present a positive economic case to its bankers it will still have to overcome lingering suspicions over its ability to administer the agreement. Here worries concentrate on two main fronts: reorganisation of public sector borrowers, and the operation of a scheme to ensure that the private sector, too, has access to foreign exchange for debt service.

Under the agreement, the Government is to assume the debts of all but 12 public sector borrowers. Some borrowers will be wound up in the process. The legal work for this is incomplete

Work on classifying private sector debt is also still not finished. Sr Marcano says that by mid-May the Government had registered $11.3bn in private sector debt or 83 per cent of the estimated total. Decisions on the eligibility of borrowers to have access to subsidised foreign exchange had been taken in respect of $9.8bn, though Sr Marcano will not say how many were positive.

That means there is still a potential for disputes over the treatment of private sector debt which could delay the main rescheduling agreement. Here the Government is relying on its record, which has seen a marked increase in the flow of private sector interest payments this year: up until mid-May these totalled $297m compared with $384m in the whole of last year.

But even if Venezuela does succeed in pushing its agreement through, bankers believe that this will only represent a modest advance in practice towards a solution of the general developing country debt problem. Some now argue that a two-tier market has developed in Latin America in which borrowers such as Venezuela and Mexico have demonstrated their ability to cope with conventional solutions to their problems, while others such as Argentina and Peru have made little headway.

It is these countries which are now causing major headaches for their creditors.

Even Sr Marcano admits that Venezuela cannot isolate itself from elsewhere. "We have a good agreement allowing us to re-initiate growth with no major constraint on our imports," he says. "If interest rates stay low it would be to our advantage to stick with it, but of course we have to look very carefully at developments in other countries. We too belong to the Cartagena group (of Latin American debtors)."

Costa Rica retaliates after border guard deaths

By Tim Coone in Managua

DIPLOMATIC RELATIONS between Costa Rica and Nicaragua are close to rupture following an incident in which two Costa Rican border guards were killed last Friday.

Costa Rica has accused Nicaraguan armed forces of embushing a patrol of its Rural Guard on Costa Rican territory. Two guards were killed and several others wounded.

The Costa Rican Foreign Ministry said over the weekend that it would not replace its ambassador in Managua who was withdrawn earlier this year. Its embassy in Managua, however, continues to function as a consulate.

Costa Rica has also called for an emergency meeting of the Organisation of American States to discuss the border clashes with Nicaragua, and for it to consider stationing a permanent border investigating commission on the frontier. Further retaliatory measures were expected to be taken by Costa Rica last night.

Sr Humberto Ortega, Nicaraguan Minister of Defence, has emphatically denied that Nicaraguan troops carried out the ambush and blamed it on the U.S.-backed guerrilla forces of Arde or Contras, which maintain rearguard bases inside Costa Rica.

Recently the Costa Rican Rural Guard carried out a number of operations in the border zone to control the movements of the contras. At the end of April it arrested five foreign mercenaries, two of whom transpired to be ex-British Army officers, who had been working as military advisers to the contras.

Sr Ortega blamed the U.S. for creating the tense border situation, and appealed to the Costa Ricans "not to fall in the trap" of breaking relations with Nicaragua, which he claimed was what the U.S. wanted.

Over the past week the Nicaraguan army has been on the offensive against Arde guerrilla forces and has attacked several of their previously secure bases along the San Juan River which separates the two countries.

The San Juan River is an important supply route for the guerrillas, who also operate air strips on both sides of the frontier to re-supply their forces fighting inside Nicaragua.

Signs of weakness in U.S. economy spur Wall St rally

BY STEWART FLEMING IN WASHINGTON

FURTHER SIGNS of weakness in the U.S. economy spurred a sharp rally on Wall Street's money and bond markets yesterday taking interest rates in some sectors of the market to new lows for the year in hectic trading.

There was heightened speculation on Wall Street that another cut in commercial bank prime lending rates was imminent as banks are under pressure to lower their lending charges. Commercial loan demand is weak, there is stiffer competition from commercial paper issuers and banks have suffered a sharp reduction in their own funding costs as short term rates decline.

Fuelling the bond market rally was speculation that the Federal Reserve Board, which cut its discount rate only two weeks ago, would move again soon to ease its monetary policy in response to weak economic data.

But money market economists are divided over the likelihood of another Fed move so soon after last month's cut in the discount rate to 7½ per cent, and the absence of firmer evidence that the economy is not yet recovering from its first quarter stagnation.

The dollar was also influenced by the decline of U.S. interest rates, weakening against several European currencies. In Frankfurt the dollar was fixed Frankfurt the dollar was fixed at DM 3.0392 after trading over DM 3.10 last week.

Mr Alan Lerner, chief money market economist for Banker's Trust in New York, said that one factor behind the bond market rally was the latest monthly survey from the National Association of Purchasing Managers which showed that in May only 25 per cent of those surveyed were receiving better new orders, down from 32 per cent in April.

There were [illegible] too in those reporting lower production and weaker new orders.

Mr Lerner said that the Purchasing Managers' survey has often been a good forward indicator of short-term economic trends. On Friday the Commerce Department reported weak factory orders and another rise in the trade deficit in April, also signs of sluggishness in the economy.

The first broadly based official economic data for May will be released on Friday with the monthly report on unemployment.

Interest rates have been falling sharply in recent weeks. In mid-morning in New York yesterday, the Treasury 11.25 per cent bond maturing in 2015 was yielding 10.38 per cent, down from 10.56 per cent on Friday and 10.85 per cent a week earlier.

Some money market economists said it was particularly hard at the moment to assess the thrust of Fed policy because of distortions in the weekly data for reserves.

Mexico's minimum wage rise lower than expected

BY WILLIAM ORME IN MEXICO CITY

DESPITE political pressure to boost wages further, the Mexican Government has raised the minimum wage by a modest 18 per cent. The increase goes into effect today.

The minimum wage hike was called "prudent" by businessmen, but bitterly criticised by independent unions which argued that an increase of at least 30 per cent was needed to offset the continuing decline of worker purchasing power.

Some observers had expected the Government to grant a bigger increase with an eye toward labour support in Mexico's July 7 mid-term Congressional elections.

Economic analysts, however, had warned that the inflationary effects of a larger wage rise would put further downward pressure on the peso.

The minimum wage legally guarantees workers base rate of 1250 pesos ($5.21 at the current official exchange rate), for an eight hour day in Mexico City, in the south eastern oil industry district and in the industrialised north.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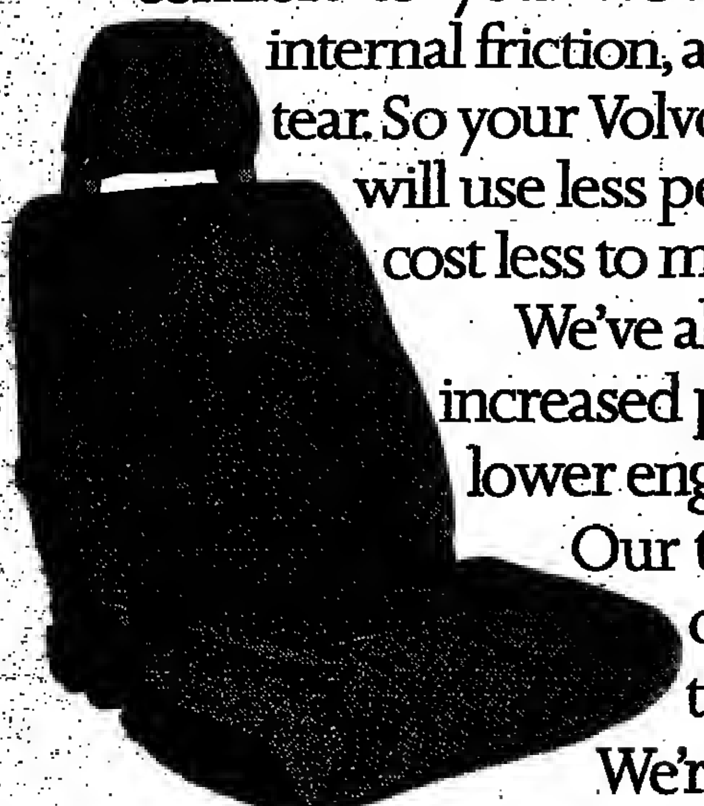

UK NEWS

Snags over Iran deal may force Talbot lay-offs

BY ARTHUR SMITH

TALBOT, the UK subsidiary of Peugeot of France, has hit new financial problems with its £130m a year contract to supply car kits to Iran – the biggest single UK motor industry export.

Trade unions have been told that lay-offs could be imminent. Stocks at present stand at 30,000 kits – equivalent to about four months' supply. No kits have been shipped to Iran since November last year, 1984.

The profitable Iran contract, crucial to Talbot's performance, and which has now been running for 17 years, has been subject to repeated interruptions for political and financial reasons in recent years.

Some 1,000 workers at the Stoke engine plant, Coventry, were recalled only in April after a seven-week lay off caused by difficulty in obtaining letters of credit.

Mr Geoffrey Whalen, the chief executive, was able to announce an oil counter-trade arrangement "which should provide continuity of production and regularity of payment well into 1986."

But while Talbot might have overcome one hurdle by obtaining the letters of credit, problems have now blown up in a key link in the complex counter-trade arrangement. Talbot says Krupp Oil, of West Germany is in dispute with the National Iranian Oil Company over the price to be paid for lifting the oil which will finance the whole package.

Talbot, with stocks mounting, has told the trade unions it will have no option but to halt production until the financing deal can be cleared. The setback marks yet another blow for a company which achieved a net profit of £3.1m in 1983 after accumulated losses approaching £400m over the previous decade.

Mr Whalen, in his annual report in April, pointed to the problems in the Iran contract as a key factor in the drop in the 1984 profit to £727,000.

The key to Talbot's recovery plan is the C28, a medium-sized hatchback car, that will go into production at the Ryton assembly plant, Coventry, this autumn. Peugeot, the French parent, has agreed to a £20m investment to back the project. This is seen as an indication of its commitment to the UK.

The new model, due to be launched early next year, is important to an improvement in Peugeot-Talbot's sales which slipped last year to little more than 4 per cent.

John Griffiths writes: Receivers of the failed De Lorean sports car project acknowledged yesterday that they had received an approach connected with an apparent scheme by Mr John De Lorean to launch a new sports car based on the gull-winged model that was produced in Belfast.

They were approached by an associate of Mr De Lorean, New Orleans businessman Mr Gordon Novel, about the possibility of acquiring various production equipment for the car. However, Mr Christopher Hughes, joint receiver with Sir Kenneth Cork of accountants Cork, Gulley, said last night."Just about everything has been disposed of except for the master drawings."

Mr De Lorean, who was acquitted of drug trafficking last year but who is still facing a U.S. federal Grand Jury investigation of his business affairs, said yesterday he planned to establish a plant in Ohio to build the car.

French group takes over Oric business

By Jason Crisp

ORIC, the British home computer group which went into receivership in January, has been bought by a French company.

Oric is the third significant British microcomputer company to be bought by European interests. Last August Dragon, which was also in receivership, was bought by Eurohard of Spain. In February Olivetti, the Italian office equipment group, bought a 49.3 per cent stake in Acorn, which was in financial difficulty.

Overseas companies are also thought to be showing an interest in Sinclair Research which is urgently seeking up to £15m for a capital reconstruction after a cash flow crisis.

Oric has been bought by Eureka Informatique, an independent distributor of home computer products. Eureka already manufactures peripheral equipment such as monitors and plans to make the Oric computers at its plant in Normandy. Eureka also distributes home computers in France for Sinclair Research, Amstrad and Enterprise.

Eureka has bought the stocks, parts and rights to the Oric range of home computers. It has not bought the plant and buildings. No figure has been disclosed for the purchase.

M Jean-Claude Talar, president of Eureka said yesterday: "We are very pleased to have acquired Oric which has enjoyed a good reputation in France. It is an ideal complementary product for our range of other well known home computers."

UK NEWS

Timber importers braced to meet challenge from environmentalists

Andrew Gowers on why the destruction of tropical rain forests is on the political agenda in Britain

BRITAIN's tropical timber importers are bracing themselves for trouble. The immediate source of the worry is in the UK, with what may turn out to be a vigorous campaign against tropical timber importers just launched by the environmental group Friends of the Earth (FOE).

The root cause, however, lies thousands of miles away in the steaming tropical rain forests of Asia, Africa and Latin America. Conservationists have long been concerned about the rapid rate at which these forests are being depleted by commercial exploitation, clearance for agriculture and domestic consumption of fuel wood.

Suddenly, the issue is on the political agenda in Britain – and FOE, which describes the rain forest campaign as its most ambitious yet – is determined to keep it that way for several years.

The London-based group is pressing timber companies to agree to a voluntary code of conduct under which they would promote ecologically responsible management of forests and felling practices.

It has also called on them to contribute 1 per cent of their profits to a tropical rain forest preservation fund, and is urging consumers to try to avoid buying products incorporating tropical wood unless they are sure it comes from a properly managed forest.

As a result, the timber trade is worried that it will be caught between conflicting pressures: conservation-conscious consumers on the one hand and cash-hungry developing countries eager to maximise their timber exports on the other.

In a sense, the campaign has come at a curious time, when the first inter-governmental trade and conservation pact on tropical timber, the International Tropical Timber Agreement, is falling into place. But FOE appears to believe that this accord, which will be activated in June after ratification earlier this year, lacks teeth.

On forest conservation, the figures it quotes are certainly alarming. Every year, FOE says, 20m hectares of tropical forest – equivalent to the surface area of England, Scotland and Wales – are felled. Since the Second World War, almost half the world's entire tropical forest area has been destroyed, leaving a total of about 9m square kilometres – a little larger than the U.S.

It has been estimated that, for every 13 hectares of closed hardwood forest cleared in the world, only one hectare is replanted.

That has far-reaching implications. Tropical forests provide a habitat for a staggering array of wildlife, many species of which are becoming extinct as a result of their disappearance.

They also play an important role in the world's climatic balance and in preventing disturbances such as soil erosion and floods in tropical countries such as Brazil, Indonesia and Malaysia.

In a study of the UK tropical timber trade published to coincide with the campaign, FOE pins at least some of the blame on the UK, which remains heavily dependent on imports for its timber. Britain, it says, is Europe's third largest importer of tropical timber (in terms of the standard unit of timber measurement, roundwood equivalent), after France and Italy.

It also points an accusing finger at UK companies involved in felling trees in developing countries, such as Unilever, Inchcape and Harrisons & Crosfield.

The British timber trade agrees there is a problem. But it vigorously disputes the claim that it is a primary culprit.

The Timber Trade Federation says that internationally traded tropical timber only accounts for a maximum of 10 per cent of the timber extracted from the rain forests – and Britain buys only a relatively small proportion of that. Much more important is the felling of trees for fuel and the clearing of forests for settlement or agriculture, particularly cattle ranching as in large areas of Central America.

The independent Institute for Environment and Development agrees. In a paper produced earlier this year, it concluded: "The tropical timber trade probably gets a quite disproportionate share of the blame for forest destruction."

The Timber Trade Federation also says that it is the governments of the producer countries which are often especially keen to boost timber production and which are largely responsible for forest management.

Nevertheless, the federation's fear is that it might become a scapegoat for problems which are almost completely beyond its control. It believes that sales of tropical wood-based products – teak and mahogany furniture, for example – may suffer as a result.

"There must be something to fear in all this," says Mr Christopher Holmes-Smith, an official at the federation's London headquarters. "Margins in the business are already very tight indeed and quite a lot of companies have gone out of business in the last few years."

He adds: "There are problems with conservation, but they are to a large extent the problems of sovereign governments. Once you start mixing politics with this problem, it can get out of perspective. To turn around and say that the timber trade must suffer to put it right is a little galling, to say the least."

For its part, FOE insists that it is not out to confront the timber companies. Campaigners have already written to the federation to seek a meeting to discuss a voluntary code of conduct and the federation will almost certainly agree to see them.

The group is not looking for quick results and it is quite prepared to keep up the pressure for another five or 10 years if need be. Long campaigns like this have not been ineffective in the past – witness the successes of the FOE's long-standing efforts to save whales.

Timber! An investigation of the UK tropical timber industry by François Nectoux; £4 from Friends of the Earth, 377 City Road, London EC1.

Convenience stores 'head for £1bn sales'

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

U.S.-STYLE convenience stores are the fastest growing sector of British retailing and are set to achieve a total turnover of more than £1bn by 1987, according to a report from the Euromonitor market research group.

Euromonitor adds that these new-style convenience stores "will provide an opportunity for smaller independent stores to operate alongside the large multiples without being driven out of business."

Convenience stores are seen as being significantly different from the many thousands of "corner stores" in the UK or the small shops typically run by Asians. They are similar to the fast food outlets based on American experience in offering basic products, such as newspapers, everyday groceries, and alcoholic drinks in a retail environment aimed at securing maximum turnover in the most efficient way.

In the U.S., according to Euromonitor, there are 39,000 such convenience stores compared with only about 30,000 conventional supermarkets.

In the UK at present there are an estimated 700 convenience stores operating along the lines of U.S. stores, but Euromonitor predicts that that number will rise to 2,500 by 1987. However, it believes the market potential is for up to 5,500 convenience stores to be operating in the 1990s.

Among the companies operating in this fast growing sector are specialist chains such as the "7-eleven" group, now owned by Guinness, grocers such as Spar and petrol companies such as BP.

Euromonitor predicts that by 1987, voluntary grocery groups will have 52.6 per cent of the convenience store market, followed by specialist convenience stores with 34.4 per cent and petrol companies with 7.6 per cent. The remainder will be convenience stores operated by the larger supermarket chains with 5.4 per cent.

UK NEWS

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Thatcher urges greater effort to find football riot culprits

BY IVOR OWEN

MORE DETERMINED efforts to identify the followers of Liverpool who were responsible for the acts which led to 38 people being killed at last week's European Cup Final in Brussels were urged by Mrs Margaret Thatcher, Prime Minister, in the House of Commons yesterday.

Her emphasis on the sense of national shame occasioned by the tragedy – "there are, I believe, no excuses for what happened and we must not try to find any" – was supported from all quarters of the House.

Mrs Thatcher expressed disappointment that so few of the culprits had so far been apprehended and emphasised that the Government would do everything in its power to remove any possible difficulty in the way of any charges the Belgian authorities might decide to bring.

Mr Neil Kinnock, the Labour leader, pledged support for legislation modelled on that already in force in Scotland – which the Government wants enacted by the end of next month – making it an offence to be drunk or to possess alcohol on football coaches, on entry to grounds and giving the police authority, when necessary, to seek the closure of licensed premises near stadiums when matches are due to be played.

The general amity over the deplorable events in Brussels came under strain when the Prime Minister rejected demands from the Labour benches for a wide-ranging inquiry to identify the reasons for what Mr Kinnock described as "the hooliganism, thuggery and breakdown of behaviour in our society."

Mrs Thatcher insisted that repeated examinations, papers and reports into the causes of violence had never found the answer. "I do not intend to ask for yet another inquiry," she said.

Other measures announced by the Prime Minister were: legislation to be introduced in the next parliamentary session giving the police additional powers to control open air assemblies where there is a risk of disorder. In the case of football matches the police will be empowered to limit the numbers attending and impose other conditions.

Any lessons learned from the Brussels tragedy will be taken into account by Mr Justice Popplewell when he reports on the outcome of the inquiry into the fire at Bradford City and the crowd disorders Birmingham football grounds on May 11. An interim report is expected before the beginning of the next football season in August.

All clubs in the third and fourth divisions of the English Football League are to be brought within the scope of the Safety of Sports Grounds Act. The introduction of closed circuit television at football grounds is to be speeded up and the Football Trust has made an initial allocation of £500,000 to assist this process – enabling the device to be installed in more than 30 grounds in addition to the 11 in which experiments are already taking place.

Kit car producers to ignore code

BY JOHN GRIFFITHS

TWO OF the largest kit car producers in the UK have withdrawn from a code of practice announced for the industry last week by the Society of Motor Manufacturers and Traders (SMMT). The companies, Dutton Cars and Eagle account for 40 per cent of the kit car market worth an estimated £4m a year.

Mr Tim Dutton-Woolley, chief executive of Dutton Cars, claimed yesterday that the code had been "hijacked by an elite" of producers whose aims would put at risk the viability of many smaller makers.

Mr Dutton-Woolley said that the "elite" group within the SMMT's specialist cars section which has drawn up the code over the past year, had as their main aim to persuade the Government to introduce a "junior" form of Type Approval.

Type Approval is the lengthy and expensive process, including crash testing, by which manufacturers such as Ford or Austin Rover gain legislative approval for their built-up cars.

Kit car producers were exempted from Type Approval in 1978; but some, such as Caterham Cars (which offers what used to be the Lotus 7), Midas and UVA would like to make the transition to built-up car production, but cannot afford the costs incurred by Type Approval.

"Junior" Type Approval – such a system already exists in West Germany – would allow such producers to make fully built-up cars after undergoing a less stringent approval process than applies to volume manufacturers.

However, Mr Dutton-Woolley said yesterday: "This creates the severe risk, for the 100 or so companies which wish to remain making kits, of the Government deciding that this 'junior' approval should apply to all kit cars – and that would put many companies out of business."

Union faces up to challenge of a changed world

BY PHILIP BASSETT, LABOUR CORRESPONDENT

GRADUALLY, often painfully, Britain's trade unions are adjusting to face harder times – economically, politically and structurally. Change is being forced upon them.

Few unions are reshaping themselves more coherently than the General, Municipal and Boilermakers' Union (GMBU). Though it is still Britain's third-largest union, it has taken some hard knocks. Within a whisker – only 25,000 members away – from reaching a membership of 1m in 1979, the union has since lost 240,000 members.

The haemorrhage is not yet over. According to a report presented to the union's annual conference in Blackpool yesterday, the union will lose an estimated 20,000 further members this year and the same number in 1986.

Taken with the 1984 loss of 28,622, this will push the union down to 800,000 – only reaching that figure by its continuing mergers with other unions. The GMBU will announce today a further amalgamation, this time with the 16,000-member Lancashire-based Amalgamated Textile Workers' Union.

"Decisions have become more difficult," Mr David Basnett, GMBU general secretary, said yesterday. "Change is more imperative."

Hard though they are, these decisions have been faced in the GMBU in a cool and rational way. At its conference last year, the union launched a lengthy exercise in self-analysis and self-renewal, called Decision '84, aimed at reshaping itself to become a union "for the '80s, '90s and beyond," as states its conference platform banner this year.

Mr Basnett said that the initiative – the most extensive practical formulation of the Trades Union Congress's strategy exercise on unions' changed role – was "an enormously large task" for the union, which was still incomplete.

Its progress so far is charted in a report to this year's conference which provides a graphic portrayal of how unions are adapting themselves to meet a changed world.

Decision '84 was deeply gloomy about the union's finances – but the subsequent year has shown it to have been realistic. Not that this is a comfort to the GMBU – as the report says, "the worst of the forecast expectations has materialised."

In crude figures, that means the union is deeply in the red: despite

David Basnett: GMBU's 'enormous task'

an increase in contributions at the end of last year of 10p per member per week to 80p, the union has an operating deficit of £1.53m.

Contributions will be raised again by 10p over the two years from 1986, but the union expects to go into the black on its operations this year, partly because of a programme of cost-cutting set in train by the Decision '84 exercise.

The GMBU is considering reducing the number of its constituent regions, at present 10, to generate an unspecified but "very high" level of savings, which will become possible as large numbers of the union's powerful regional secretaries are due to retire shortly.

By means of voluntary redundancies, union officer costs were cut in 1984 from £3.71m to £3.33m.

At branch level, the union is also cutting back. At its conference today, the union is likely to approve a rule change which will help to facilitate the progressive return of the administration of branches to unpaid branch secretaries. The union last October stopped accepting members' claims for non-occupational weekly accident benefit, which last year cost it £1.48m.

Mr Basnett says in the report that the state of the union shows that the "needs for urgent action were not born of panic or imagination." But the changes being faced by the GMBU, and other unions, are still far from over.

"The hard path clearly defined in Decision '84 is now being forcefully followed through," Mr Basnett says. But the path still has a long way to run.

STERLING VALUE 'LIKELY TO BE PEGGED'

Inflation seen as target of sterling policy

FINANCIAL TIMES REPORTER

THE BRITISH Government was likely to try to peg the value of the pound at close to its present relatively high level for the rest of this year, Dr David Lomax, National Westminster Bank's group economic adviser, said yesterday.

Speaking at the Financial Times conference "Foreign Exchange in 1985," Dr Lomax said that the emphasis of official policy towards sterling would be directed towards squeezing out as much as possible of the recent upsurge in inflation.

The Government would be less concerned with the impact of a high exchange rate on exports, or with the effects on growth of high interest rates, because of the buoyancy of the economy.

The policy implied only a gradual fall in interest rates from their present level, he said.

The commercial banks' base rates were likely to be around 11 to 11½ per cent at the end of the year, compared to the current 12½ to 12¾ per cent, though a sustained fall in the value of the dollar could allow a more rapid fall.

There were a number of uncertainties, however, which could cloud the outlook for sterling over coming months and keep interest rates at or close to current levels, Dr Lomax said.

These included the risk that the faster pace of UK price rises would feed through into wage demands, lingering doubts over the effectiveness of controls on public spending and the possibility of a weakening oil price.

"I can thus see the British Government having some difficulty in maintaining its defensive posture for the whole of this year, and while they will no doubt keep the pound more or less where it is, they may have to work hard to do so," he said.

Many of yesterday's speeches concentrated on the outlook for the U.S. dollar and reflected the wide divergence of views among economists and bankers on its likely fortunes.

FINANCIAL TIMES
Foreign Exchange Risk - 1985
CONFERENCE

Dr Deborah Allen Olivier, president of the Claremont Economics Institute, argued that the strength of the dollar was the product of reduced inflation and a strong economy. As such it was a long-term phenomenon which could remain for five or 10 years.

The strong U.S. currency was also having a positive rather than a negative effect on the U.S. economy as a whole, by forcing it into a restructuring which would make it more efficient and competitive internationally.

Dr Olivier said that although the short-term impact on some sectors was painful, it was contributing to a fundamental long-term gain for the economy. She said that much of the U.S. current account deficit could be attributed to a boom in imports of capital goods, which would allow industry to be more productive and efficient. On that basis, the dollar could rise to DM 4 in the foreseeable future.

The view that the U.S. currency would remain strong was shared by Mr Hiroshi Ogai, joint general manager of Sumitomo Bank's international treasury department.

He said that there had been no fundamental change in the factors which had encouraged a massive flow of funds from Japan into overseas assets, particularly dollar assets.

The long-term interest rate differential favouring the dollar over the yen would remain, regardless of any fall in the actual level of interest rates, and investors remained confident that U.S. inflation would remain under control.

He said the recent financial liberalisation measures in Japan were being translated into more borrowing and selling of the yen by foreigners and more investment and buying of dollars by Japanese.

Mr Ogai forecast that the yen was likely to suffer from a $2bn fall in Japan's current account surplus to $33bn, at a time when net outflows of long-term capital would remain at around $50bn dollars.

The short-term capital inflows needed to bridge this "financing gap" would tend to boost the dollar and depress the yen.

The optimistic view of the outlook for the dollar was challenged, however, by Mr Anatole Kaletsky, an economics writer with the Financial Times.

His thesis was that, while short-term speculative flows might keep the dollar high for the immediate future, the implications in terms of the U.S.'s collapsing competitiveness and its ever-growing trade deficits foreshadowed an eventual crash for the U.S. currency.

GREEN PAPER ON SOCIAL SECURITY

Gainers and losers in bid to simplify structure and cut costs

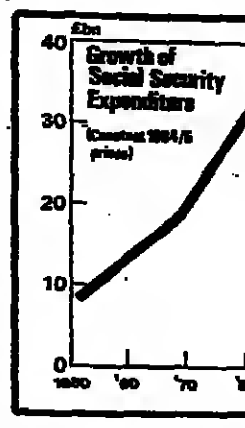
THE GOVERNMENT set out in its proposals to reform the social security system with five strategic aims:

● To curb the expected growth of pnblic expenditure on older people after the turn of the century, wben the proportion of pensioners to workers will be rising and the State Earnings Related Pension Scheme would be giving much more generous benefits.

● To simplify the social security system and to get rid of some of the Byzantine rules faced by claimants. It is also hoped top rovide a better service by the use of computers.

● To make sure that as far as possible, social security spending is directed more accurately to those in need. However, it rejected at an early staget be idea of universal means testing, preferring to keep the principle of a basic safety net of universal benefits (like child benefit) and contributory benefits (pensions, and unemployment bene sions, and unemployment benefit).

● To enconrage private sector pensions and make them more portable.



● To increase the incentives for receiving benefits to seek work.

Hhe Governments main difficulty in achieving these objectives has been that for any significant change there must be gainers and losers, unless it is prepared to countenance a sudden increase in the social security bill.

Since, on the contrary, its strategy is to curb spending and so to reduce taxes, it is faced with the problem that some of the "losers" in a change of benefit and pensions rules could be comparatively poor people.

Reports by Max Wilkinson and Eric Short

The three volume Green Paper published in a charade of pre-pnblication secrecy yesterday, avoids this problem mainly by omitting the relevant figures.

So, although the strategic thrust of the documents is much more like that of "White Paper" proposals than a Green Paper consultation, they contain no overall figures for costs or savings, and rather few estimates of the precise impact of detailed proposals benefits of.

The figuring is most obvious in the introductory chapters which set out the dire consequences of leaving pensions arrangements unchanged.

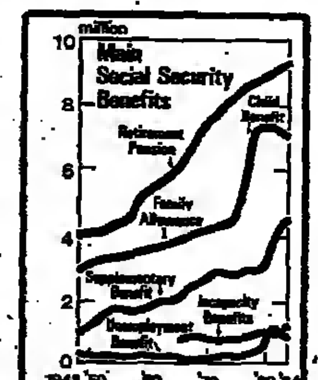
In 50 years' time, it warns, the number of pensioners will have grown by 40 per cent to 13.2m, but the number of worker bees in the hive will hardly have increased. That means that each pensioner will be supported by only 1.6 contributors compared with 2.3 now.

In the 40 years to 2034 the real cost of the basic pensioo would bave risen by nearly 170 per cent to £45bn (at current prices). Tbat neglects the impact of SERPS which adds another £23bn, and it assumes that the basic pension rises only in line with prices rather than earnings.

If one assumes pensions rise in line with earnings and that SERPS is continued, pension costs rise fourfold during the period.

The White Paper warns that the higher proportion of elderly people will at the same time increase bealth service and other costs, since the retired population accounts for about 40 per cent of the cost of health and community care programmes.

This outlook comes at e time, the peper reminds us, when the basic pension has increased to more than 50 per cent of the



after-tax earnings of an everage male manual worker. This compares with 30 per cent in 1951.

The average disposable income of pensioners is now estimated to be about 70 per cent of the average for non-pensioners.

The paper also points out that the present contributory principle for state retirement pensions and unemployment benefits bears little relationship to the ideas of Sir William Beveridge in 1942. It has become a pay-as-you-go system in whicb each generation pays the pensions of the previous generation.

Although this bas an element of a social compact about it, the paper cautions that it would be wrong for the present generation to pre-empt too much of the income of its children by awerding itself over-generous pensions.

This is the background to the main conclusion of the report, which is that SERPS should be phased out and replaced hy private sector schemes. Employees will be obliged to contribute, and a minimum of 4 per cent of employees income should be devoted to this, at least half contributed by the emplyee.

The basic state pension will remain as the foundation from which more generons private schemes can be built.

On the more immediate question of social security, the Government appears to have opted for a fairly major tidying up operation rather than radical reform.

Unemployment benefit and the present universal child benefits will remain unchanged.

Rise in the value of benefits in relation to price increases	
Benefit (single person)	% rise 1949-84
Supplementary benefit (long-term rate)	169
Retirement pension	149
Invalidity benefit (long-term sick)	139
Supplementary benefit (ordinary rate)	112
Unemployment benefit	98
Sickness benefit	90
Child benefit/family allowance	148
Supplementary benefit (scale rate for child under 5)	132
Supplementary benefit (scale rate for child 5-10)	93

However, all the present means-tested benefits will be recast into a simpler mould. The idea is to reduce radically the present two volumes of rules, which contain 16,000 paragraphs, many of them incomprebensible to claimants.

A new system of benefits, supports to poor families at work and bousing benefits would be assessed on a compatible set of criteria, to minimise contradictions between overlapping benefits.

One of the main changes would be that after tax income would he used for assessment rather than gross earnings. This would smooth the transition from benefits paid to those out of work to those paid to working families. It would also amellorate the present poverty trap which can give some workers an effective marginal tax rate of 100 per cent.

This would be linked to a credit system which would allow some benefits to be paid in a wage packet, by effectively reducing tax and national insurance liabilities. The advantage of this would be that poorer families would get an increase in take-home pay, rather than being forced to go through the ignominy and tedium of queuing at social security counters.

Radical reform of State pensions

THE Government has proposed a radical reform of the State pension structure in the Green Paper.

The basic flat rete national insurance pension will remain unchanged, but the State Earnings-Related Pension Scheme (SERPS) is to be phased out as from April 1987.

To replace it, employers and employees will be required to contribute to an occupational or personal pension, with a minimum level of contribution of 4 per cent, of which at least half must be contributed by the employer.

After the initial period, there will be a uniform National Insurance Contribntion rate.

The Green Paper pinpoints the cost of Serps as one of the main reasons for these changes. Pension payments now account for almost half the total social security budget, of which less than 1 per cent of pensions expenditure arises from Serps entitlements.

The number of pensioners is expected to rise by over 4m during the next 50 years. The cost of Serps is forecast to increase very rapidly by the turn of the century. By 2033 the total pensions bill will be between £45bn and £67bn at current prices, compared with £15.3bn at the present time. Much of the increase in the Serps bill arises from entitlements already earned so most of the extra cost in 2033 is inevitable.

The paper conclndes that the analysis of the finances of the State scheme clearly exposes the scale of problems and the need for change.

The paper suggests:

● Abolish SERPS without replacement, whila honouring accrued rights. This would leave employers and employees with the choice of whether to make pension provision above the basic State level, with many opting for higher take bome pay rather than provide for a distant security in retirement.

● Restrict the scope of SERPS to reduce its cost, without providing any alternative. The paper lists the steps that could be made to contain costs.

If all this were implemented, the cost of SERPS could be halved. But the Government felt that it would be negative in its impact, bringing about savings simply by reducing benefits, would perpetuate the cumbersome atructure of contracting-out and do nothing to encourage employers or employees to make extra pension provision.

Instead, it has opted for replacing SERPS by a new partnership between State and private pension provision.

The State would provide a basic flat rate pension for all, and employers an demployees would provide the additional pension through an occupational pension scheme or a personal pension contract.

Effect of bonus years for men over 40 and women over 35			
Age in 1987 Men	Women	Number of added years	Addition to SERPS rights %
40	35	1	10
41	36	2	20
42	37	3	30
43	38	4	40
44	39	5	50
45	40	5½	55
46	41	6	60
47	42	6½	65
48	43	7	70
49	44	7½	75

TOTAL PENSION COSTS (1984-85 PRICES) Government Actuary's estimates		
	Basic pension uprated in line with prices	Basic pension uprated in line with earnings
1988/89	£16.9bn	£17.6bn
1993/94	£17.9bn	£20.0bn
2003/04	£21.4bn	£25.9bn
2013/14	£27.7bn	£34.4bn
2023/24	£35.7bn	£49.8bn
2033/34	£45.0bn	£66.5bn

Demographic Factors Affecting Pensions			
Year	Pensioners (millions)	NI contributors (millions)	Ratio of NI contributors to pensioners
1985	9.3	21.8	2.3
1995	9.8	21.9	2.2
2005	10.0	22.2	2.2
2015	11.1	22.4	2.0
2025	12.3	21.9	1.8
2035	13.2	21.8	1.6

However, the paper admits that this change cannot be achieved overnight. It accepts that people's pension rights and expectations are fundamental. The proposals mark the transition over a 20-year period from the present system to the objective contained in the paper.

The basic State pension remains and is intended to provide the foundation on whicb those retiring can build their own additional pension. The paper claims that by concentrating on the basic pension alone governments will have flexibility in raising the living standards of all pensioners when national wealth increases and not just those who have recently retired.

The phasing out of SERPS is a complex process to keep the Government's commitment to maintaining people'a rights and expectations.

The start of the changeover is scheduled for April 1987.

● Men aged 50 and over and women aged 45 and over at the change over date will continue under the existing SERPS arrangements, whether they are contracted-in or contracted-out. This would mean that people within 15 years of retirement would not be required to change to a new system which would not give them sufficient time to build up their savings to replace SERPS.

● For younger age gronps, SERPS is being phased out over a three year period. Rights will be earned during this period at a reduced rate of accrual.

● To avoid a sharp difference in treatment between those remaining in SERPS and those outside, men in the age group 40 to 49 and women in the age group 35 to 44 will have a bonus benefit made in the form of extra years of SERPS rights. This bonus is on a sliding scale ranging from a 10 per cent addition for men aged 40 (women aged 35) to 75 per cent for men aged 49 (women aged 44).

● All pension entitlements earned under the State scheme will be bonoured.

On the other side of the partnership, all employers will have to set np occupational pension schemes, with employees having the right to opt ont of their employer's acheme and have their own personal pension. The minimum contribution level to the occupational scheme or the personal pension will be 4 per cent of earnings, with the employer paying at least half the cost.

During the three-year phase-in period, tha contribution requirement will be 2 per cent in the first year, 3 per cent in the second year and 4 per cent in the third year and beyond.

The scheme will operate on a defined contribution basis, in that the contributions paid are invested and the accumulated sum at retirement is used to buy at annuity.

For employers this means that they have a fixed level of financial commitment without the open ended promise of a defined benefit scheme, while for the employee it gives an identifiable sum of pensions savings which belongs directly to him.

The paper states that the contributions will be subject to the same tax relief arrangements as for other pension contribntions.

Existing defined benefit schemes—based on final or average revalued earnings—will be able to comply with the new system providing they conform to the present contracting-out requirements or to the new contribution tests. The paper expects a substantial change in the existing pattern of occupational pension provision as a result of these proposals from defined benefits to defined contribntions.

The paper says that under the new arrangements many employees and employers will find the option of personal pensions attractive. Tha proposals issued last July for a system of personal pensions will be much easier to set up with the phase ont of SERPS. All employees will be able to opt for a personal pension instead of joining their employer's scheme.

Self-employed pension arrangements remain unchanged.

The Government proposes to allow all employees in defined benefit occupational schemes the right to boost their pension rights by making extra pension contribntions. At present this provision, referred to as Additional Voluntary Contributions, is at the discretion of the trustees of the pension scheme.

The phasing out of SERPS makes it necessary to change the NI contribution structure. At present rates for contracted-ont employees are lower than for those contracted into SERPS.

The ultimate ending of SERPS makes this differential irrelevant and the Government proposes one common rate, about 16.5 per cent combined employer/employee, compared with 19.45 per cent for contracted in and the main 13.2 per cent for contracted-out.

The common rate will apply to those employees out of SERPS. Bnt for those still in the scheme the present arrangements apply.

The move to a common rate will be phased in over the three-year transitional period.

The Government is taking the opportunity under its new proposals to introduce flexible retirement. However, it does not propose at the same time to change the retirement ages on the State basic pension which are 65 for men and 60 for women.

Instead the Government is seeking views on how the state pension can equalise retirement ages without imposing exceptionally high costs.

Demise of SERPS puts end to consensus

THE proposed radical pension reform has one main theme. The State involvement is to be restricted to the basic flat rate and the second tier pension will be provided by the private sector.

So the forecast demise of the State Earnings Related Scheme is now a fact and the ending of the political consensus on pensions a reality.

However, the Government has not completely turned the clock back to the early days of social security when employees had a choice as to whether they made any pension provision above the basic State pension.

There will be a second tier pension available to all employees, except the very low paid. But this will be provided by the employer who for the first time will be obliged to set up a company pension scheme, or by the employee making his own personal pension arrangement.

The reason put forward for ending Serps is one of the cost burden being foisted on future generations by pension entitlements being accrued now.

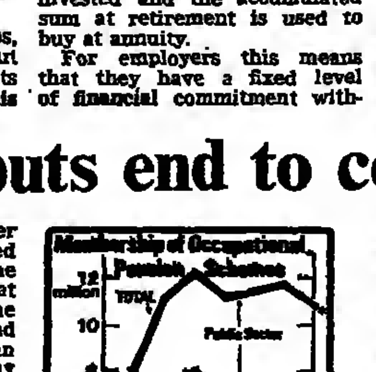
To replace Serps, the Government has gone back 15 years to the principles underlying the so-called Joseph scheme devised under the Ted Heath Government.

This scheme, which never saw the light of day, provided a second tier pension on the money purchase principle, that is contributions paid into the scheme would be invested and the accumulation value of an individnal's fund used te buy a pension at retirement.

All company pension schemes will in future have to pass a very simple contribution test, that is that the minimum contribution paid is 4 per cent. Thus the proposals are encouraging companies to set up their schemes operating on a money purchase basis—a basis that already operates for self-employed pensions and will be used for the Government's proposed personal pension scheme.

The advantages of a money purchase arrangements are emphasised in the Green Paper. As far as the company is concerned, a money purchase scheme limits its financial liability to its contribution rate. For the employee, the advantage ia that be has his own identifiable pensions savings which he can carry with him from job to job.

Indeed the new pension arrangements for employers are simply a series of personal pensions with a common investment return that can be unbundled



when the empolyee changes jobs.

However, the disadvantaga of money purchase for employees is that the ultimate pension received depends on the level of contributions made during working life, the investment returns achieved on those contributions and the level of annuity rates at the tima of retirement. In other words the ultimate level of pension is very much a lottery, as the self-employed have found out.

Under final salary schemes, the employee has a guaranteed pension in terms of his final earnings and the loss of pension rights on change of jobs inherent in a final salary scheme have been mitigated by the proposals of the current Social Security Bill.

The arguments for and against will no doubt be bandied back and forth during the next two years hefore the proposed start data of April 1987.

However, employees wishing to have the security of e pension based on their earnings at or near to retirement will in future bave to bargain with their employers to set up e final salary scheme. This may prove to be progressively more difficult as the Government makes no attempt to disguise its preference to set-up or switch to such schemes.

The proposals envisage a long transitional pbase to maintain the SERPs benefit acrual rigbts or older employees.

The demographic features are expected to be favourable to the social security scbeme for the rest of this century and the cost burden will come in about 80 years time.

The phase in uses this favourable feature to get a smooth transition, because the overall pension outgo will remain unchanged under these proposals until 2002.

Removal of disincentives in housing support

THE CHANGES proposed to the bousing benefit scheme are intended to provide a unified system of support for low-income households firmly linked to the income support scheme. It will provide the same level of support for similar households whether they are in work or not. This is intended to remove the disincentive effects of the current scheme.

The six main proposals are:

● The rules fo rthe new income support scheme should be used to assess entitlement to housing benefit.

● Households on income support, and all others on similar levels of income, should be eligible for the maximum level of assistance with their eligible rent and rates.

● All households should pay a contribution towards the cost of domestic rates.

● For households above income support levels, benefit should be reduced by a simple formula or taper, related solely to income.

● There should be more comprehensive safeguards against excessive or unnecessary benefit expenditure.

● Local authorities should continue to administer the scheme but more comprehensive management control and be developed.

Changes in cash aid to families

A NEW Family Credit for low-income working families to replace Family Income Supplement is proposed. This will have a similar structure to the new Income Support scheme with higher rates for older children and a premium for all families.

It will also be based on a similar net income test to the simplified housing benefit and income support schemes and be paid by employers as an offset to tax and national insurance.

It is intended to provide higher rates of cash support instead of benefits in kind.

Child benefit will continue to be paid to all children as at present and one-parent benefit will be unchanged.

Many working families with children are among the poorest in this country. The Government says that Family Income Supplement has not been successful in meeting their needs because:

It is based on gross earnings. This means that some familise can face a rednction in total income if their gross earnings rise over significant ranges of earnings.

It gives relatively less help to larger families and those with older children who can find themselves worse off in work than unemployed.

Birth and death grants to end

THE inclusion of maternity and death grants in the original National Insurance scheme had the laudable aim of helping with the immediate costs of birth and death. As the Green Paper points ont, they belp meet the cost of essential equipment and clothing needed for a new child and provided for funeral expenses.

However, their value was never maintained over the years. The maternity grant stands at £25, hardly enough to provide a set of napples, while the death grant at £30 is about one-tenth the cost of even a simple funeral.

These considerations have influenced the decision of the Government to end the grants, rather than increase the benefits to a realistic level.

Separate systems to replace supplementary benefit scheme

THE Government's proposals will replace the supplementary benefit scheme by two distinct and separate systems—income support and the social fund.

The new scheme of income support will aim to give people a reasonable level of help for them to manage as they wish. It will not seek to provide in detail for every variation in individnal circumstances. Help will be set by three elements. All claimants will have a personal allowance based on age and partnership. There will be a dividing point at age 25. Claimants with children will get belp through a flat-rate addition for all those with family responsibilities and, as now, amounts for each child depending on age. Finally, there will be extra allowances for special groups to reflect their higher needs. These groups will be pensioners, claimants wbo bave been incapable of work for some time, and lone parents.

This system will replace the present structure based on age and partnership, householder status, family responsibilities, and time on benefit, topped up by a separate system of weekly additions. There will be more favourable treatment of claimants' savings and relaxation of the rules on earnings from part-time work for certain long-term unemployed couples, lone parents and claimants with the disablement-related premium.

The Green Paper says the new system is intended to combine simplicity and flexibility. Income support will provide claimants with a clear level of belp, while containing proper distinctions between groups of claimants to take account of their differing needs. It says help will be better targeted. The income support scheme will provide a set income for claimants to manage free of intrusive investigation, capable of delivery more quickly and accurately.

There will be a standard personal allowance for all claimants, varied only by aga and marital status. That will end the present householder/non-bouseholder distinction and the structural distinction between ordinary and long-term rates. These will be replaced

At present there is no age dividing line relevant to all claimants. It is proposed that there sbould be different rates for adult claimants above and below age 25, although account will be taken of claimants' family responsibilities.

This proposal means improved rates of support for those over 25 presently categorised as non-householders.

A new fiat rate family premium will be introduced for all those with children, regardless of their time on benefit.

Families will continue to get extra amounts for individual children with rates set by age. There is some doubt about whether the present pattern of children's rates is the most appropriate and tbe Government says it would like to hear views on this subject.

The new system of income support will be based explicitly on client group divisions.

● Unemployed claimants. The Government proposes to continue the basic definition of the group as those who are required to be available for work as a condition of receiving help. These are broadly those fit for work under 60.

● Pensioners. There will be a general premium for all pensioners in recognition of the permanent loss of earnings normally associated with withdrawal from the labour market. Such a premium will be paid when claimants reach age 60.

There will be a higher premium rate for those most likely to bave continuing health problems or to be frail and in need of special support in maintaining themselves in the community. Access to the higher premium will be gained through two routes. The first will be age-related with higher premiums to all those aged 80 and over.

● Lone parents. The present scheme recognises the extra pressure faced by lone parents by giving them access to the bigber rate of benefit after a claimants in the group qualify for that rate. There will be a premium rate of support for all lone parents with dependent children under sixteen, regardless of their time on benefit. All lone parents, wbatever their age, will receive the over 25 rate for single claimants, the family premium, and their further specific client group addition on top.

There will be a premium rate for those with serious bealth or disablement-related pressures. The Government believe that the new arrangements should be based more explicitly on the criteria adopted in incapacity and disability benefits.

The Government plans to set up a new social fund to cope with the exceptional difficulties that will be faced by a minority of claimants. Three main objectives underlie the proposal.

Summary of the chief proposals

Pensions

Everyone will have their own pension with their job in addition to the basic state pension, the value of which the Government will maintain.

The State Earnings-Releted Pension Schema (SERPS) will continoe for men over 50 and women over 45 at the time of the reform. For those below these ages it will be phased ont so that younger employees bave time to build-up new pension rights. No existing pensioners, nor anyone retiring this century, will be affected by the changes.

All existing rights under SERPS will be bonoured.

Existing SERPS rights will be enhanced for men aged 40 to 49 and women aged 35 to 44. People in these age groups will be given a bonus in addition to any occupational pension they are building up.

Employers and employees will be required to contribute a minimum of 4 per cent of earnings (2 per cent each) to an occupational or personal pension. Employers must either arrange their own scheme or contribute to approved schemes of the employees' choice.

Employees will have the right to take out personal pensions with a contribution from their employer. This change is intended to carry forward the Government's programme of occupational pensions reform, and adds to current measures to provide: better protection against inflation for the pension rights of those who leave a scheme before retirement; a right on leaving a scheme to the transfer value of their deferred pension right; access to better information about pensions.

No change in retirement age is proposed. But the Government is inviting views on the idea of a "decade of retirement" between 60 and 70, within which the timing of retirement would be e matter of individual choice.

A more coberent system of income-related benefits will replace family income supplement, supplementary benefit and the present complex bousing benefit scheme. The benefits for all low-income families will have the same basis of assessment and similar structures to ensure consistency of treatment for those in and out of work.

They will be simpler and easier to understand and to administer.

A new Family Credit for low-income working families with children will replace family income supplement. The new scheme will tackle the poverty and unemployment traps. Peopla will no longer be made worse off by earning more, because benefit will be based on net pay instead of gross. There will no longer be marginal tax rates of over 100 per cent. The aim is to ensure that no one in work sbould be worse off than on benefit. Because the same benefit structure is to ba used it will pay to take a job. Family credit will be paid in the wage packet as an offset to tax and national insurance.

Child benefit will continue to be paid for all children.

The supplementary benefit scheme is to be replaced by a simpler structure of Income Support which will avoid present complexities and intrusive qnestioning. Families with children, including lone parents, will receive a new family premium. Other premiums will be paid to pensioners, long-term sick and disabled people and lone parents.

More generous rules for capital and earnings are proposed. One effect will be to help remove the penalty on savings.

A new Special Fund will be set up, with an annual budget, to belp people with special difficulties over budgeting and other financial emergencies. It will also help to carry forward the Government's policy of care in the community, for example by giving elderly people more cash belp so that they can stay in their own homes.

Housing Benefit will be greatly simplified and provided on an equal basis for peopla in and out of work. Benefit will be reduced through a single taper as income rises instead of the present six separate tapers.

Help with rents will be up to 100 per cent for those on the lowest incomes wbether in or out of work. The future of help with rates depends on other studies the Government bas in hand. But it is proposed that all households should pay et least a minimum contribution, possibly of 20 per cent towards their domestic rates.

Other benefits

Better belp will be provided at times of special need—to belp the least well-off with tbe expenses of births and deaths and to belp widows at the time of breavement. The death and maternity grants will be replaced by belp from the new social fund for low-income families wbether in work or out of work. The maternity allowance will be concentrated on working expectant mothers who will have some choice over the period it can be drawn.

A new lump sum payment of £1,000 will be paid to widows instead of the present weekly widows' allowance paid for six months. Weekly benefit will be focussed on widows with children and older widows without children.

No charges are proposed to unemployment benefit, to the structure of benefits specifically for sick and disabled people, to the entitlement of young people to benefit or to the Christmas bonus.

Aligning tax and benefit years

Benefits will be uprated in April, at the same time as changes in taxes, contributions and rent and rates. The first April uprating will be in 1987. The present November uprating will change in July 1986.

Management of social security

The management of social security is being transformed by the biggest computerisation programme in Europe. A new social security management board is being established and will include some members from outside Government with expertise in running large businsses. These changes plus the simpler benefit structure proposed in the Green Paper will radically improve service to the public.

The Green Paper is in three volumes:

Volume 1, Reform of Social Security, sets out the background to the review and main proposals. Cmnd 9517. HMSO £3.00.

Volume 2, Reform of Social Security: Programme for Change, gives a more detailed account of the main benefits. Cmnd 9518. HMSO, £6.60.

Volume 3, Reform of Social Security: Background Papers. Cmnd 9519. HMSO, £10.50.

The Housing Benefit Review is published separately. Cmnd 9520. HMSO, £6.10.

THE ARTS

Michael Denison as Sir Toby Belch in Shakespeare's "Twelfth Night," which opened last night at the Open Air Theatre in Regent's Park, London

London Galleries/William Packer

Identity packages made in USA

Quite as much as what we eat, we are where we are, conditioned by the culture in which we have grown up. There is, of course, rather more to Art than that; in the end it must be seen for itself, and judged on its particular merits. But to make the point is not necessarily to overstate it. Three current London exhibitions, entirely independent of each other, are all worth seeing for the Art they show. The artists they celebrate are American, and it is not altogether unreasonable to discern in them a certain common character, for all the ostensible differences in their work.

Now any one-man show of whatever provenance is a kind of package, a convenient parcel or bundle of stuff for the occasion: but it does seem that an American package takes on a significance that is more than occasional, a matter rather of actual identity and definition. This is the product, as it were; wrapped in a protective sheet of critical validation; thoroughly marketable.

Perhaps the habit is catching. Dealers around the world are in the business of marketing reputation; who can blame them. But whereas in Europe, still the artist's need to grow and shift and change in his work is generally respected and understood, to the American mind any such radical development can be most disturbing. The American critic, Irving Sandler, writing of the New York School of the 1950s, spoke with entire approbation of the artists concerned making their crucial "breakthroughs into individual style," as though to say that all such things as problems and difficulties had now passed away, "neither shall there be any more pain." Certainly the American critical machine has been nothing if not style-conscious these 30 years, and the juggernaut rolls on still.

Frank Stella's new work and graphics now fill the galleries at the ICA (until July 7: small works at Knoedler in Cork Street). He achieved his breakthrough into immediate modern master status around 1960, at the age of 24, with his severely constrained, very elegant Black, Aluminium and *Copper series* of paintings, large shaped and notched canvasses with the simple monochromatic field articulated only by a set of close parallel lines that followed the essential shape of the support.

He became at once a leading figure in the young reaction against more gestural abstract expressionism, and it must be said that he has to his name some of the pivotal and definitive works of that important time.

But what does the post-painterly painter do when the post-painterly moment has passed into art history? He has his work to do for its own sake, to mature, develop and sustain him by its own inner necessities. But he also has a public position to keep up and major works, if not actual masterpieces, to produce. Style may become a determining preoccupation rather than a mere function of the work, and the artist may find himself trapped by his own attitudinising. Stella has gone on working in batches, making large-scale paintings and painted reliefs under titles obscurely portentous enough to become—where they draw too much attention to themselves—an issue. Meanwhile the ever more colourful shaped paintings of the 1960s led on to a breaking-out from the picture plane into actual relief; to carry a more exuberant improvisation upon what was always a natural constructivist imagery. The "Pillars and Cones" by which this latest series is characterised are clear enough; so too the explicit genuflexion to El Lissitzky in the Had Gadya prints.

The most interesting feature, however, and still the least resolved in Stella's development into relief since the early 1970s, is his readoption of a final gestural treatment of so much of the surface of each work, the imposition not so much of an image or abstract figure as a last decorative texture or visual rhythm by which to distinguish any particular physical element. What is so odd about it is not that he should return to a kind of abstract expressionism, nor that he should seek to work back from the sculptural fact of the relief towards a surface that is inherently more ambiguous, suggestive and illusory — this contradiction has fascinated artists throughout history—but that he should do so with such casual complacency and lack of grace.

To make such things as these, huge as they are, is no small undertaking; we all know about the ship and the ha'porth of tar. The collaged prints, with their more closely integrated surfaces, and naturally more punctilious execution, are very much more successful in this respect; the imagery more coherent and the graphic handling so much more judicious, careful and to the point.

There is, too, the matter of scale. The point elegantly made by the prints is reinforced by the small reliefs at Knoedler—again, better made, with a more careful formal engagement and control. The largest scale has never carried with it automatically the greatest importance.

Next door in Cork Street, at the Mayor Gallery (until June 22) are paintings by Harold Shapinsky; small paintings in oil on board and paper spanning a quiet, consistent career over nearly 40 years. Historically they are very interesting indeed; in themselves, beautiful and distinguished; which is not to say they are works of the first importance.

The problem here is that their particular qualities and virtues are for the moment rather at the mercy of their history. Shapinsky was an artist active in New York in the 1940s, the familiar of the great figures of abstract expressionism in the last days of their comparative obscurity and stylistic irresolution. But that world moved on, leaving Shapinsky behind; he moved into teaching and the modest practice of his own work. Now, at the age of 60, he has been discovered by one Professor Rachmander from Bangalore. There is general acclaim and success at last to all concerned, and good luck to them. The earliest work is especially convincing, indeed extraordinarily knowing and mature for one then so young, picking up in a most sophisticated and authentic way from the current examples of Arshile Gorky, Mark Rothko and de Kooning. And if Shapinsky has not moved far from that position in the intervening years, that is not to say he has been stuck in his work, or anything less than personal, only that he is the kind of artist who, finding himself early, discovers quite enough, in a narrow range, to sustain him thereafter.

Finally, at Riverside Studios (until June 16) can be seen something of the newest work of Lee Quinones, still only 25, whose public career as a painter began all of 10 years ago on the subway trains of New York.

He was not the first, but soon became one of the most celebrated in that clandestine world, where the work of perhaps a single night would roll out onto the tracks next day to the graffiti artist's own excitement and the astonishment of the commuter. The graffiti imagery of those days is now well documented, the cult has become a passage in recent art history. That background is set out here too; but the importance of this show is that it takes us beyond cult to an individual; beyond imagery that was always more remarkable for energy and effrontery than for its originality.

What we see now is that an artist, trying to declare himself, must first escape the morass of graphic cliché in imagery taken in whole from monster comic and strip cartoon. The energy is still there, and the ambition and, most important, the natural graphic flair.

Quinones' transition from secondary to primary experience and material, however, in terms of subject-matter and personal sophistication, has yet to be negotiated: here the attempt is being made. Naivety is always its own excuse and special plea, and hard to give up. This is a poignant exhibition, therefore, and very interesting.

"Diavolozoppo" by Frank Stella, at the Institute of Contemporary Art, London

The Dog-Heads/Prague

Andrew Clark

The Czech conductor and composer Karel Kovarovic (1862-1920) was a kind of Salieri figure in Janáček's early career. Kovarovic was musical king in the city where Janáček was most desirous of success; his rejection of *Jenufa* in 1903 and the alterations he made to the score before finally allowing it to be performed in Prague 13 years later have left him a place of dubious merit in the history books, and outside Prague itself posterity has tended to pass over his compositions.

The return to the Prague repertory, after a long absence, of Kovarovic's most successful opera *The Dog-Heads (Psohlavci* in Czech) is a reminder of his huge influence in the development of Czech musical life at the turn of the century.

Unlike Janácek's operas, *The Dog-Heads* does not come across as strikingly original: it dates from 1898, two years before Kovarovic became director of the Czech National Opera, and as an immediate descendant of the Smetana-Dvorak school, it lies very much in their shadow. Kovarovic played clarinet in the orchestra at the first performance of *Libuse* under Smetana and, while his use of the orchestra is more sophisticated, the handling of the patriotic theme is a reminder of Smetana's lesser efforts, with individual character submerged under typecast situations of heroism, suffering and communal pride.

These problems were scarcely alleviated in the new production staged during this year's Prague Spring festival by Inge Svandova-Koutecka, whose failure to give personal direction to principals and chorus left the visual setting wallowing in the ghastly acting clichés that debilitate so many opera performances in Prague.

The Dog-Heads were banner emblems of the Chods, a people in the border region of southern Bohemia who enjoyed a number of ancient privileges in recognition of their special role in defending the Czech homeland from invasion. The opera covers a period in the late 17th century when these privileges were threatened by a local Austro-German magnate (all baddies in Czech history appear to be German-speaking — until recently, at least) with the connivance of the Czech oligarchy in Prague. There are parallels of social comment here between *Psohlavci* and *The Brandenburgers in Bohemia*, and also with *Dalibor* in the heroic tenor role of Kozina. Laminger, the German bully, is a Scarpia-like figure for whom Kovarovic devised his most inspired musical characterisation.

The conductor Josef Chaloupka, whose expert handling of a wide repertory in Prague has much impressed me, directed a performance that showed an understanding of the stronger orchestral colours, giving the main tutti sections a freedom and boldness, and displaying exemplary respect for the voices. But the rest of the production was too uneven to make a convincing case for the work. The primitive appearance of the stage was evidence once more of the limited resources of the Prague theatre workshops, though Oldrich Simacek's use of a large overhang of chessboard design in the court-room, prison and drawing-room scenes conjured some dramatic atmosphere.

The voices of most of the Prague ensemble leave much to be desired. Two of the older members of the ensemble, Jaroslav Horacek and Karel Berman, continue to sing well, but too many of their colleagues have a hazy sense of pitch and an inflated vibrato.

The New York theatre season

Frank Lipsius

With no proper hit musical (apart from the revival of *The King and I*, for a last look at Yul Brynner who won a special Tony this time), it was not a *stellar season*. The Tony nominators and administrators eliminated three musical categories for lack of competition; and end-of-season figures show a slight drop in attendances accompanied by a drastic fall in the number of openings—33 this season compared to 60 only three years ago.

Despite the recent nose-dive in new openings, Broadway's problems are not new. In the past, there tended to be two musical contenders for Tonys because a last-minute opening would give some heart to the race. *Nine*'s opening, on the last eligible day of the 1982 season, caused an old-fashioned grudge match with the backers of *Dreamgirls*, which otherwise had had the musical awards sewn up. Last season, *Sunday in the Park with George* gave a good run for its money to *La Cage aux Folles*, which had begun as long ago, almost, as the summer before. As Harvey Sabinson, executive director of the League of American Theatres and Producers, says: "If two of the musicals that opened in the middle of the season had been any good, nobody would be complaining now."

The problem has become so acute that there is even talk of Broadway ticket prices coming down. Harvey Sabinson notes proposals to scale ticket prices down to $25, a result, perhaps, of a new Dramatists' Guild contract which gives playwrights more money upfront but less during the run until a production breaks even.

The season had other heartening signs of change. Two plays opened under an innovative arrangement made by an independent producer, Morton Gottlieb, in which seats were blocked out to bring a Broadway house's capacity down to 499. Salaries and ticket prices were scaled down with it, showing a capacity for compromise that may herald a new era.

After all, theatrical unions face 85 to 90 per cent unemployment among their members. In more uncompromising days, the figures were used to demonstrate why workers had to be paid so much when they did work; but the same figures are equally applicable to arguments for compromise, to get more members into work. Norman Kean, a producer who negotiated the new playwrights' contract with the Dramatists' Guild, assumes that the contract "sends a direct message . . . to directors and choreographers and agents and unions that operating costs must be pulled down."

Easing financial strains will only allow a better assessment of how much permanent damage has already been done to the theatre. Plays, especially musicals, need some viable alternative to the out-of-town tryout. Michael Bennett, who devised both *Dreamgirls* and *A Chorus Line*, created his own New York workshop, while Stephen Sondheim's latest musical, *Sunday in the Park with George*, began at the off-Broadway Playwrights Horizons. So alternatives exist; but two of this season's musicals, *Big River* (which won a Tony) and *Leader of the Pack*, needed more work to prevent good scores being undermined by less good productions.

But as off-Broadway ticket prices meet Broadway's, public expectations of higher production values could put paid to shows like *Mayor* appearing at all in New York. If off-Broadway has to sink to Broadway's nadir before its problems are recognised, there may be far fewer companies to face up to the issues. On Broadway, at least, theatres exist waiting for some revival in their fortunes. Off Broadway shows tend to be housed in converted garages, town houses, and other buildings that may revert to their previous use.

The question is whether higher ticket prices destroy the section of the public which supports theatre, or just sends it into hibernation. The habit of New Yorkers going to the theatre may be lost: shows able to run for years rather than months do so on New York's constant turnover of out-of-town visitors looking for familiar names, titles, and splashy old-fashioned production values.

Of the new season's productions, Neil Simon's *Biloxi Blues*, a successor to *Brighton Beach Memoirs* as autobiographical comedy, looked certain to win Best Play among the Tony Awards this time, and did. Just when it seemed that the injection of personal experience had saved Simon comedies from formulaic humour, this new show reverts to stock characters and plot twists to explore the world of the army recruit in the Second world war. Matthew Broderick again plays Simon's autobiographical character, Eugene Jerome.

The best hope for a play's longevity is winning the Tony. There is healthy competition in the category, contradicting the direst views about the state of theatre. David Rabe's *Hurlyburly* in which Judith Ivey won the Best Supporting Actress award, has run since last summer with its serious, *occasionally searing* commentary on bachelor life in Hollywood; though the play was filling only a third of the house in the middle of May. A young black playwright, August Wilson, got to Broadway with *Ma Rainey's Black Bottom*, a contrived play (with an excellent cast) about a 1927 recording session.

Another contender (loser) in the Best Play stakes this season, offers the best hope for the future of New York theatre. Written about the AIDS epidemic, William Hoffman's *As Is* moved to Broadway after a short run at the Circle Rep. It demonstrates a strong, enlightened concern about a killing disease which affects a widening community of victims; it could have been stripped of some diversionary fragments of irrelevancy, including its fey use of actors sitting on the edge of the stage, staring like a chorus at the action; but its quick move uptown and 70 per cent audiences show Broadway's continued, but all too rarely tested ability to rise to issues of immediate concern with thoughtful and absorbing drama.

Collegium Musicum/Elizabeth Hall

Richard Fairman

Poulenc's choral music is far from the English conservative tradition. Only a Frenchman, one feels, could have expressed his belief like this: music that presents religion with energy and sensual harmonies, as Gounod and Massenet had already done before him.

On Saturday at the Elizabeth Hall the Collegium Musicum of London under their director Laszlo Heltay performed three of the major works: the little-known *Sécheresses* (1937); the *Sept Repons des ténèbres* (1961), one of Poulenc's last compositions; and the more familiar *Stabat Mater* (1950), known from recordings. It is as well to note the dates: these three pieces spread over a full three decades of the composer's active life from soon after his return to Roman Catholicism to his last years.

But hearing them together only shows how very similar they are. One might have expected that the unusual texts to the *Sécheresses* (surreal, barren landscape by the eccentric Englishman, Edward James)) would have prompted a different style, but this score is a rich and perfumed as either of the others. And, if the interval had not intervened, it would have been difficult to tell where the *Sept Réponis des ténèbres* ended and the *Stabat Mater* began.

If ever any music could seduce listeners to religion, this is it. The performances given by the Collegium Musicum were less overtly emotional than some French interpreters have been, but their accuracy — especially in the unaccompanied choral passages which must be a devil to keep in tune — paid dividends.

In the *Stabat Mater* the moods were precisely caught. Heltay's steady beat allowed each section of the work to emerge as a cogent unit and his forces responded with first-rate playing. Their account easily surpassed Prêtre's recording, which was authorised by the composer, in all respects but one: the exception was Nan Christie, whose bright and secure singing of the soprano part was really no match for Régine Crespin, the grand, voluptuous exponent on the record. Once heard, her idiomatic way with the music cannot be forgotten.

British Museum/Antony Thorncroft

Sutton Hoo revitalised

Visitors to the British Museum this summer must enter by a side door: the main entrance hall is being restored to its early glory. Indeed the whole Museum is getting a face-lift, with *refurbished galleries* opening almost by the month.

The latest is the Early Mediaval room. In the past the BM's medieval treasures, excepting manuscripts, have had rather a raw deal, especially the Sutton Hoo finds, the most important discovery from the European Dark Ages; comparable, in its importance, to the unearthing of the unrobbed tomb of Tutenkamen.

Now Sutton Hoo has a place of honour at the entrance to the Early Medieval room whose re-design traces the art and archaeology of Europe from the 3rd to the early 12th centuries. Some of the doubts about Sutton Hoo seem to have been resolved. It is now confidently described as the ship burial of Raedwald, an East Anglian king who reigned *primus inter pares* over southern England, and who died around AD 625.

Raedwald had briefly converted to Christianity: there are signs, among the baggage he carried to the other world, of Christian symbols—just in case. The silver bowls excavated in 1939 have never gleamed so brightly, and the relative sophistication of the Dark Ages never surfaced so belligerently, with Coptic bowls from Egypt nestling alongside Celtic hanging bowls, and a great dish of the reign of Anastasius of Byzantium carrying a classical head which would not have disgraced Rome at its most triumphant.

The greatness of the British Museum is that it can present, in adjoining glass cases, the most important relics of a global past. After generous space given to Anglo-Saxon Britain, including the Franks casket of 700 AD which carries *sophisticated scenes*, carved in whalebone, of Christian, German and Roman mythology, within a few yards there are some of the best remains of Latvia, or the gold of Byzantium.

Next door the medieval room takes the story through Carolingian, Romanesque and Gothic art. It is nice to see the Limoges reliquary that we, through the British Rail Pension Fund, bought at auction, on loan to the BM; and the remaining 13th century paintings from St Stephens Chapel, the first House of Commons until the 1834 fire, now given due prominence.

Painshill gets £1m grant

The National Heritage Memorial Fund has donated £1m to Painshill Park Trust to enable the Trust to restore Painshill to its original glory as an 18th century landscape park.

Painshill, at Cobham in Surrey, was in its day as famous as Stourhead and Stowe, but the estate fell into decay after the Second world war. In 1980 Elmbridge Borough Council acquired 158 acres of the original site which covered over 200 acres. During this summer, on Sundays, visitors may take guided tours of the Park to see the restoration work in progress. The grant is the largest made by the Heritage Fund this year.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

May 31 – June 6

Opera and Ballet

NEW YORK

American Ballet Theatre (Metropolitan Opera House): Mikhail Baryshnikov and company, including Natalia Makarova, Cynthia Gregory, Patrick Bissell and Clark Tippet dance a mixed programme from their eight-week repertory. Ends June 15. Lincoln Center (362 6000).

New York City Ballet (New York State Theatre). A new ballet by Jerome Robbins joins Balanchine and Robbins favourites, including A Midsummer Night's Dream, Firebird, La Valse and Apollo, in the company's two-month season. Ends June 23. Lincoln Center (870 5570).

WASHINGTON

Metropolitan Opera (Opera House). The American tour includes repertory performances of Lohengrin, Così fan tutte and Simon Boccanegra. Kennedy Center (254 3770).

The Suzuki Company of Toga (Terrace): A bit of the 1984 Olympic arts festival plays Washington. Ends June 2. Kennedy Center (254 9895)

NETHERLANDS

Amsterdam, Stadsschouwburg. The Netherlands Opera in Tosca, directed by Lotfi Mansouri, with the Amsterdam Philharmonic and the Opera Choir, under Bohumil Gregor. Mariana Arroyo as Tosca, Vladimir Popov as Cavaradossi and Henk Smit as Scarpia (Sat and Thur). (242311).

The National Ballet with three works by its resident choreographers. No Man's Land by Rudi van Dantzig (music by Sytze Smit). Three pieces by Hans van Manen (Grazyna Bacewicz), and Santair Solitair, a new ballet by Toer van Schayk. (Wed in Amsterdam, Stadsschouwburg). (242311). (Thur in Utrecht, Stadsschouwburg). (310241).

Amsterdam, Tropeninstituut (Mauritskade 63). L'eroe cinese, an opera seria of 1753 by Johann Adolf Hasse with a libretto by Metastasio, tells of the intrigues around two Chinese princesses. Ton Koopman conducting the Amsterdam Baroque Orchestra, with vocalists Mieke van der Sluis, Claron McFadden, Elisabeth Priday, Max van Egmond and David James (923189).

Amsterdam, Brakke Grond Theatre (Nes 45). The Kleine Opera with the world premiere of Meraviglia by Roland Voortman, with an English libretto by Christiaan M van der Eijk. Directed by Jeroen Lopes Cardozo and conducted by Roderick Shaw. Lucia Meeuwsen in the title role of an ageing diva who exists solely in the imagination of an authoress, sung by Marianne Blok (Fri and Sat). (240394).

VIENNA

Staatsoper (5324/2655): Romeo and Juliet by Prokofiev and Woolliams conducted by Richter with Cech and Birkmeyer; Il Trovatore; Cavalleria Rusticana and Der Bajazzo (matinee); Certha's Beal.

Volksoper (5324/2657): Millöcker's The Beggar Student conducted by Bibl; Das Land des Lächelns; The Beggar's Opera; La Vie Parisienne; Der Zarewitsch; My Fair Lady.

WEST GERMANY

Cologne, Opera: To commemorate Handel's 300th anniversary, Agrippina is offered this week. The Michael Hampe production is worth a visit with Gunter v. Kannen, Barbara Daniels and Janice Hall. Generosita with Delores Ziegler and Claudio Nicolai. Hoffmanns Erzählungen has Ruggero Raimondi and Edda Moser. (20761).

Munich, Bayerische Staatsoper: La Traviata is well cast with Edita Gruberova and Neil Shicoff. Puccini's two small operas Il Tabarro and Gianni Schicchi are of respectable standard with Maria Slatinaru, Gerbis Boyagian and Lucia Popp. Das Liebesverbot rounds off the week. (21851).

Hamburg, Staatsoper: Fidelio is steered to triumph by Hildegard Behrens as Leonore. This week's highlight is Turandot with Montserrat Caballe in the title role. Der Fliegende Holländer, produced by Wieland Wagner, has Franz Ferdinand Nentwig and Sophia Larson as Senta. (351151).

Frankfurt, Opera: Hoffmanns Erzählungen brings together William Cochran and Elizabeth Parcells. There was much applause for Aida, when it premiered with Awilda Verdejo in the title role. Der Widerspenstigen Zähmung has fine interpretations by Ilse Gramatzki and William Workman. La Bohème, sung in Italian, features Ilona Tokody and Peter Kelen. (25621).

LONDON

English National Opera, Coliseum: Aida, one of the ENO's less happy attempts at Verdi on a large scale, has at least some important principal newcomers in its favour, among them the Australian soprano Marilyn Richardson in the title role. The new Midsummer Marriage is garish to look at, and conceived, for much of its time, in a spirit unsympathetic to Tippett's original ideas; but at least the music comes up as it should - exhilarating. (836 3161).

Royal Opera House, Covent Garden: The Royal Ballet returns on Wednesday with a triple bill in which Mikhail Baryshnikov will make his debut as the tutor in A Month in the Country.

Sadler's Wells, Rosebery Avenue: London Contemporary Dance season. (278 8916).

Royal Opera, Covent Garden: Così fan tutte, an aging and no longer very interesting production, returns with a strong cast (including Margaret Price, Anne Howells, and Francisco Araiza) and Colin Davis as conductor. Further performances of the Bohème revival, with Ana Maria Gonzalez replacing the indisposed Gabriela Benackova as Mimi and Nelly Miricioiu replacing Gonzalez as Musetta; and last showing of the current Samson et Dalila series, one of the strongest and most stylish Royal Opera showings for a long time. (240 1066).

PARIS

The Basler Ballet directed by Hans Spoerli, who led the company in a triumphant tour in the U.S. Théâtre de la Ville. (274 2277).

Un Bal Masqué, alternates with Soirée de Ballets with two world premieres: Washington Square set to music by Charles Ives, choreography by Rudolf Nureyev, and Mouvement-Rythme-Etude, music by Pierre Henry and choreography by Maurice Bejart. The evening ends with Mahler's Das Lied von der Erde with Kenneth Macmillan's choreography. Paris Opera. (266 5022).

Debussy's Pélleas et Mélisande. Teatro Alla Scala de Milan production with the Paris Opera and the Théâtre Des Champs Elysées conducted by Hans Zender, production by Gian Carlo Menotti with Pélleas sung by Laurence Dale/François le Roux, Mélisande by Barbara Hendricks/Colette Alliot-Lugaz. Théâtre des Champs Elysées (723 4777)

ITALY

Turin: Teatro Regio: Lyons Opera Theatre production of The Magic Flute, conducted by Miklos Erdelyi and directed by Lucien Pintilie. In the cast, Luciano Serra, Horst Laubenthal, Carla Basto, Maurizio Barbacini and Sergio Bertocchi. (54 80 00).

Palermo: Teatro Massimo (Politeama Garibaldi): La Traviata conducted by Mauro Bolognini with Diana Soviero and Nazzareno Antinori. (58 43 34).

Florence: Teatro Comunale: Berg's Lulu conducted by Bruno Bartoletti (sung in Italian). (21 62 53).

Venice: Teatro la Fenice: Ballets by the German dancer/choreographer, Pina Bausch, with her Wuppertal Tanztheater. (25 191).

Genoa: Teatro Margherita: Pinocchio—a new opera based on Collodi's book by Milanese composer Marco Tutino. Libretto by Linda Brunetta. Conducted by Roberto Abbado and directed by Maria Francesca Siciliani. (58 16 97).

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Uncosted benefits

THE GOVERNMENT'S Green Paper on the reform of social security and bousing benefit is a surprisingly cautious document in two ways. It lays down principles for reform which, while they promise to be helpful—especially in bringing extra assistance to poor families—and are supported by a well-presented analysis, are a good deal less radical than either the advance publicity or the analysis might suggest. No Government can be made to look for trouble, but it is clear that the more cautious the reform is in tackling inherent waste in the present system—notably the entrenched rights of those who bave no need of welfare support—the less the resources that can be diverted to those who are in need.

It is impossible, bowever, to measure the opportunity which bas been lost here because in a second and much less defensible attempt to avoid trouble, the Government has omitted ell the relevant figures. It is argued that the structure sbould be agreed before the detail is filled in; but welfare spending is not an abstract issue. Since the Government has decided on a compromise between old universal and new means-tested benefits, it should accept the consequences; such trade-offs are not matters of principle, but of cost and benefit. Without even illustrative numbers, the chosen compromise cannot he intelligently assessed.

Poverty support

With this very substantial reservation, we can wholeheartedly welcome the principle of the proposed reform of poverty support. The present tangle of income supports and special payments, requiring detailed, intrusive assessment of individual circumstances, reflects the spirit of a much poorer age. Counting the chairs and blankets was possibly a sensible way to assess the needs of the deserving poor a century ago, but should not be needed in the 1980s.

The proposed approach, offering everyone a basic income and bousing support based on family responsibilities, should render the detailed questionnaires irrelevant, provided that the minimum standards are not set at too mean a level (again, comment is hamstrung by the absence of numbers). A single taper for all benefits, based on net income from other sources, is the direct way to tackle the poverty trap—the interaction of means testing and tact which destroys all incentive to means testing and tax which destroys all incentive to work in some circumstances. Again, though, the declared objective of ensuring that the effective tax rate for the poor is always below 100 per cent is hardly an ambitious contribution to work incentives. How much below 100 per cent does Mr Fowler propose?

The proposals on pensions are e good deal clearer, though the case for a change on welfare grounds is not clearly argued. There are really two issues tangled up bere: the well-known but far distant demographic problem (yesterday's baby bulge and today's unemployment bulge will, in about 2035, become a pensions bulge); and belief in privatisation.

The Green Paper gives a forbidding estimate of the cost, half a century bence, of meeting the present commitment under the state earnings-related scheme, and gives some samples of ways in which it might be modified—by way of reduced benefits (but not of later retirement)—to cut the burden down to size. But this burden will be a problem for the future economy bowever pensions are financed. The proposed solution, a privatised scheme with increased freedom of choice, will have strong appeal to those already inclined to believe in it, but it is not even suggested that the change will make the future economy better able to support a much larger idle population.

This and other issues will no doubt be debated with much beat in the rather short period allowed before September, when the Green Paper is due tn turn white. We would urge that before then, Mr Fowler should provide what is missing in this paper—a range of illustrative numbers based on the detailed figures and projections which his department alone can supply with any authority. A useful debate should produce light as well as beat.

Enfant terrible of Greece

Dr Andreas Papandreou has won for himself e deserved reputation as the enfant terrible of Nato and of the European Community. Since gaining the Prime Ministership of Greece in 1981 he has threatened to submit Greek membership in the EEC to referendum; be bas rhetorically crossed Nato policies sucb as the deployment of Pershing and cruise missiles; he bas threatened to throw out the U.S. bases on Greek territory; and he bae seemed to come within an ace of war with Turkey.

Somebow the worst never happened, but the allies upon wbich Greece depends for so much in political and economic support suffered many an anxious moment. The convincing victory won by Dr Papandreou and bis Pasok party in the Greek election on Sunday ensures that many more such moments may occur.

No concessions

The best aspect of that victory is that Dr Papandreou will not be dependent upon Communist support: his absolnte majority in the parliament assures this. He will not need to make concessions to the pro-Moscow Greek Communist party to ensure hia own retention of power. His campaign, unlike that of 1981, made no play of threats to distance Greece from either Nato or the EEC. But Dr Papandreou is both wily and unpredictable. If be thinks it suits his purposes, be could quickly return to tbe charge.

Te is unlikely to do so in the case of membership in the EEC. Greek peasants have profited bandsomely from the Community farm policy and, perhaps a bit paradoxically, seem to bave reacted by voting strongly in favour of the *status quo* in Athens.

Equally, Dr Papandreou is unlikely to wish to pull Greece out of Nato, in spite of the anti-American note whicb be repeatedly struck during the election campaign. In common with moet Greeks he may complain that Nato does not—and cannot—support Greece in its age-old quarrels with Turkey. But he must know that outside the alliance, Greece would be much worse off.

The acid test may come as the current agreement governing U.S. bases in Greece approaches its expiry date in 1988. Dr Papandreou, the schemer, may wish to negotiate another extension in order not to jeopardise U.S. arms deliveries. But Dr Papandreou, the mercurial populist, could find himself the prisoner of his own anti-American words.

Something similar could bappen in the case of relations with Turkey. Dr Papandreou has been saying that Turkish soldiers must leave northern Cyprus, which they occupied in 1974, before be will entertain talks with Ankara. That seems to shut the door upon talks to settle the many inter-related Greek-Turkish quarrels.

Removing those troops is, indeed, an understandable Greek policy objective. But it is not going to be achieved by a refusal to talk. It is fair to add that a succession of Greek governments, Dr Papandreou's included, bave tempered their passions sufficiently to avoid armed conflict with Turkey.

This, too, is an area where Dr Papandreou's rhetoric could one day prove to have been dangerous. No Greek leader can safely ignore the deep popular passions stirred by memory of centuries of Graeco-Turkish conflicts. Bnt the statesmanlike course is to control these passions—not to stir them up and exploit them.

Domestic issues

On the domestic side, too, Dr Papandreou's campaign was founded largely on rhetoric and on personalities. His opponent, Mr Constantine Mitsotakis, did at least put forward a rather vague plan for liberalising their economy, though his proclaimed intention to eliminate a beavy tax on new car sales smacked very much of mere vote catching. But Pasok concentrated its fire on the supposed reactionary and authoritarian traits of Mr Mitsotakis's party, New Democracy.

The Greek Right, most of whicb must bave supported New Democracy, does not have the best of records. But since the fall of the dictatorship in 1974 much progress baa been made towards a reconciliation of the contending factions in Greek public life. The statesmanlike course would be to encourage that process, not to re-open old wounds.

By his constitutional reforms, enhancing the powers of the Prime Minister, meaning himself, at the expense of those of the President, Dr Papandreou has altered the balance of power that has prevented Greece from following too erratic a course since 1981. His clearcut electoral victory has given him the potential of bis own accord to substitute statesmanship for populism. Greece and her allies would profit if he were to seize that chance.

BRITAIN'S SOCIAL SECURITY REVIEW

EIGHTEEN months ago, Mr Norman Fowler, Britain's Social Services Secretary, initiated a series of reviews of the welfare state. Those reviews, regarded as the most thorough assessment of the social security system since the foundations were laid in 1942, culminated yesterday in the publication of a Government Green Paper.

Mr Fowler's opus is well written and well argued, yet for all this may attract widespread criticism. It may be interpreted largely as an eloquent defence of an uninspiring status quo. Worse, although it boasts a wealth of historical data it lacks any of the numbers which really matter: the paper is virtually mute on the key question—the level of future benefits.

If nothing else, the Green Paper justifies the case for a review. The Government has been concerned by the ballooning cost of the social security budget and the paper confirms that spending bas risen 60-fold since the war, five times as fast as prices, that the number of beneficiaries has shot up, and that since 1970 the real rate of growth of expenditure has accelerated.

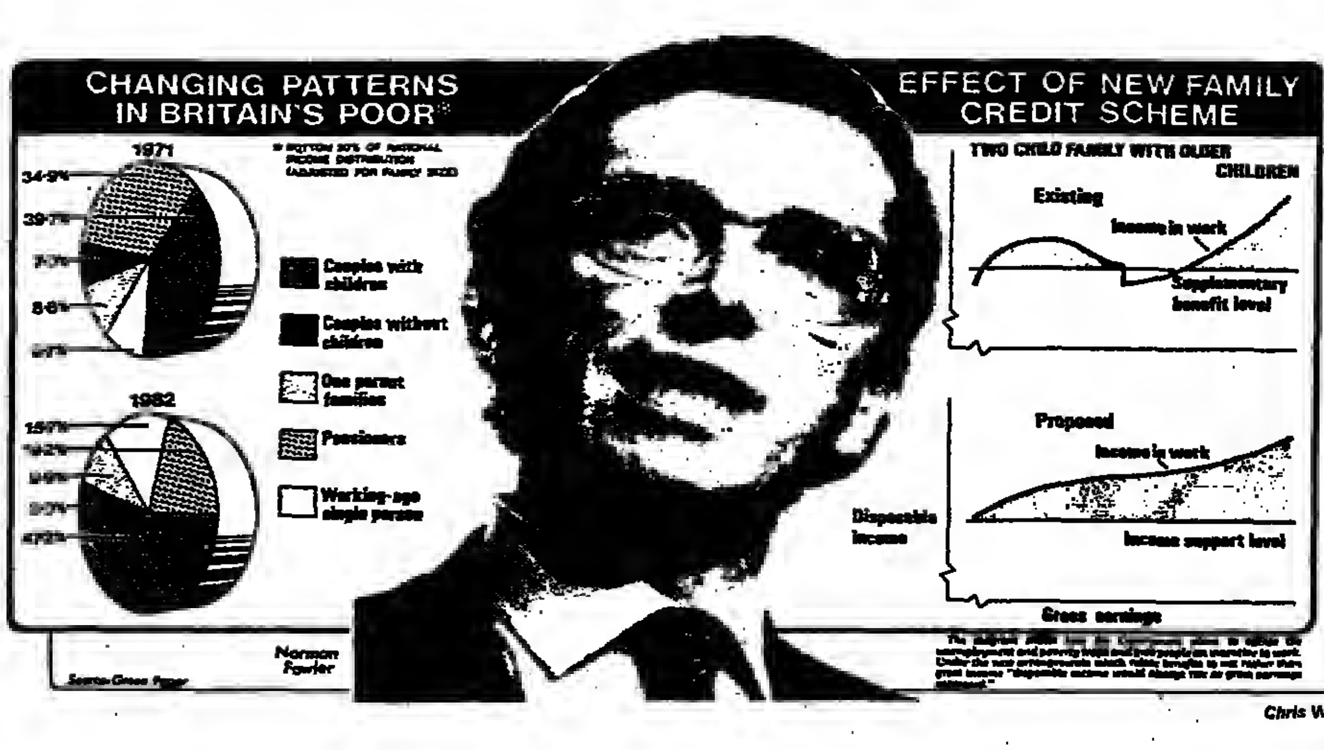
The Government is also worried that some of those most in need have not been getting adequate benefits and that some of those comparatively well off bave been getting too much state help. Tha paper leaves no doubt that the structure of povertv has altered in the past decade. As the diagram shows, the proportion of pensioners among the very poor bas dropped and their place has ben taken in large part by low income families with children and by single unemployed people.

Whitehall officials are equally aware that the social security system has become far too complex with many benefits baffling both potential recipients and administrators. The paper confirms that "40 years of tinkering have resulted in complexity and confusion." Some benefits, it says, "are shrouded ln an obscurity which at times is virtually total."

Against this background the objectives of the review are clear enough. First, to slow down the rate of growth of the social security budget. Second, to target benefits more accurately so that money is not wasted and so that the really needy are catered for. Third, to simplify the system so that people can better understand their entitlements and sa that administration costs can be reduced.

In pursuit of these objectives, the Green Paper makes several recommendations. First, and perhaps most contentious, the state earnings-related pension scheme (Serps) is to be phased out, resulting in large public expenditure savings in the long term. The Government's view is that unless Serps goes, all the other objectives of the social security system could be jeopardised because pensions would absorb a disproportionate amount of total resoures.

Second, the various income-related benefit schemes—supplementary benefit, family income supplement, housing support, and so forth—are to be overhauled. The aim is to simplify, improve incentives to work and save, and to target money more effectively. A new family credit scheme has been designed to help low income families which by tying benefits to net rather than gross incomes should ameliorate the poverty and unemployment traps. The idea is that nobody should be able to become worse off by taking work.



Chris Walker

One-and-a-half cheers for the Green Paper

By Michael Prowse

Supplementary benefit is to be replaced by a new scheme for income support. The heart of the idea is that people should be provided with a reasonable level of benefit and then be left to use it as they see fit. The present panoply of special payments for individual items which is expensive to administer and which means that families in similar circumstances may end up with different amounts of total benefit will disappear.

The intention is that people of the same age and with the same family responsibilities should get the same level of support: the rate for the under 25s would be lower than the rate for pensioners. Housing benefit is to be rationalised and tailored to complement the new income support scheme. The Government intends to reduce the number of households (currently one in three) getting the benefit and to ensure that all recipients with equal resources get equal treatment.

In overhauling means-tested benefits, the aim throughout is to try to eliminate many of the arbitrary differences in the treatment of individuals. Benefits for those in and out of work will henceforth be calculated on the same basis; bouseholders and non-householders will get comparable treatment and the distinction between short and long-term benefit rates will be ended.

Many of these objectives are sound enough. The attempt to give greater proportionate help to families with children seems well judged. The attempt through the new Family Credit scheme (see diagram) to tackle the poverty and unemployment traps deserves praise. Basing the assessment on net rather than gross income is one of those ideas which once mentioned seems obvious: it means the reduction of benefit as income rises cannot exceed the increase in earnings; marginal tax rates of above 100 per cent should disappear.

Yet, despite its merits, Mr Fowler's Green Paper will have many detractors. It may seem that the overhaul is quite thorough but many will contend that the Government has been far from radical. With the exception of the planned very slow phasing out of Serps, the paper is arguably conservative with a small c. Mr Fowler explicitly rejects calls for a "totally new design" for the social security system. What he offers is closer to a spruced up version of the existing compromise.

> Many will contend that the Government has been far from radical

The Government is dismissive of two genuinely radical alternatives: greater reliance on universal benefits paid regardless of circumstances and a shift to a wholly means-tested social security system. It manages to argue — and this requires a certain rhetorical flair—that both alternatives (although they are at opposite ends of the political spectrum) would tend to undermine individual self-help.

The shift to universal benefits favoured by many pressure groups and Labour Party spokesmen would not only "pre-empt an even larger slice of public spending" but, by expanding still further the role of the state, would further diminish personal responsibility for welfare. Thus there is to be no attempt to reduce the overall reliance on means-tested benefits nor to increase the proportion of social security spending financed by national insurance contributions as opposed to general taxation.

But if means-testing is not to be abolished, nor will it be dramatically extended; there is no prospect of child benefit or the basic old-age pension being means-tested as has been proposed, for example, by the Institute for Fiscal Studies. A substantial extension of means-testing would undermine individual self-help and destroy incentives, the paper argues. Thus, while the payment of child benefit to millionaires and of pensions to wealthy old Dukes may not be cost-effective, Mr Fowler is not prepared to alienate the middle-classes in the search for cuts.

In fact, the idea that withdrawing child benefit from a wealthy parent would reduce the incentive to provided for their offspring makes no sense, nor does the implicit suggestion that if the basic pension were means-tested the middle-classes would cease to save against their old age for fear of losing the state largesse.

After last year's furore over mooted cuts in student grants and the Budget climbdown on tax reform, critics will be in no doubt about the political motivation behind the shrinking from 'wholesale' means-testing. Mr Fowler's conversion to the view that the importance of targetting resources more effectively "does not mean that benefits should be provided only to those in need" may reflect vote-counting but will be welcomed all the same.

Apart from the lack of genuine radicalism — which may reflect the fact that Mr Fowler does not yet possess the computer hardware needed to implement grand new designs —the Green Paper arguably has another serious flaw. It resembles a company annual report which sports an impressive chairman's statement but not e profit and loss eccount.

In short, it lacks a bottom line. A new and in most respects superior structure for social security is outlined, but even illustrative figures for new benefit rates are missing.

It is disingenuous to argue that agreement on the structure must be reached before the new benefit levels can be discussed. This might be appropriate for an academic conference — but not for a government green paper. Mr Fowler is unconvincing when he argues "it would be misleading to attempt to provide a detailed analysis of the cost and impact of the changes."

A decade ago when the government of the day unveiled the state earnings related pension scheme (Serps) in a green paper, it was able to provide a clear guide to future benefit levels and costs. Today, the millions who are dependent on the welfare state have one key question: will I get more, less or the same?

The decision to suppress estimates of the financial effects of the reforms—the refusal to identify winners and losers—is an obvious political temptation but may rebound against the Government. Its task now is to prevent the Green Paper turning into another political banana skin. The need is to assemble what Mr James Baker, the U.S. Treasury Secretary, might describe as a "core constituency" in favour of the reforms.

But just as a company report which lacks the crucial numbers invites the suspicion of investors, so the Green Paper may generate some scepticism. Some groups may fear that if they back sensible structural changes, they will also appear to support whatever new benefit scales emerge: as they see it, they will have helped ease in the thin end of a dangerous wedge which could bring lower benefits for some groups: for example the young.

Assembling a core constituency behind the reforms will not be easy for two further reasons. First, Mr Fowler is asking for submissions by September 16. Arguably, such a short consultation—and one which spans the holiday period—will not do justice to this complex and lengthy document and to the many outside groups which, if given reasonable notice, could make a constructive contribution to the debate. Nobody will want to support something they do not even fully understand.

Second, the failure either to appoint independent chairmen to the main review committees or to allow them to publish independent recommendations destroys the chance of assembling a core constituency. The sections on housing benefit in the Green Paper stand out because here alone Mr Fowler is able to say that he is following the recommendations of a review body. The Green Paper's comments on Serps would, for example, have much greater authority were the Secretary of State honestly able to claim he was here following the advice of independent pensions experts.

Ironically, had the consultative process been a little more enlightened, cross-party support for some of the structural changes might have been more forthcoming even though vehement disagreement about the appropriate level of benefits would inevitably remain. The truth is that outside research institutes there is probably little support for a grand new design; living with the status quo is more comfortable.

Men and Matters

Paulson's profit and loss

Allen Paulson, the U.S. aerospace millionaire, wbo is negotiating to eell his Gulfstream business jet group to Chrysler, *has* one other hefty industrial investment that is not doing anything like as well. He is the largest shareholder in Wheeling-Pittsburg, one of the leading second division U.S. steel groups, which has just been forced to file for protection from its creditors under the bankruptcy laws.

There is some speculation on Wall Street that the two events may be linked. Wheeling-Pittsburgb is by no means dead yet, *since the Chapter II bankruptcy* proceedings are designed to belp companies marshal their resources and re-emerge. Bnt W-P is seriously wounded, and *Paulson* could suffer substantial losses. His 34 per cent stake in the steel company is today worth only around $13.5m against $60m at the high point in 1984.

Paulson's shares in Gulfstream, bowever, easily offset his exposure in Wheeling. He has a 71 per cent *stake* in the aerospace company, which be built np painstakingly over the years through a series of acquisitions.

A former flight engineer and aircraft parts salesman, Paulson emerged in 1983 as one of the most successful entrepreneurs in the competitive business aircraft industry, taking Gulfstream public in a move whicb brought him $85m.

At the price of $19 a share suggested in the proposed takeover by Chrysler — exactly the same as the 1983 public offer price — Paulson's remaining bolding in the group would be worth about $455m.

Brotherly love

An open secret in the senior levels of the trade union movement since Norman Willis took over from Len Murray as TUC general secretary is that there is a coolness between Willis and David Basnett, general secretary *of* the General, Municipal, and Boilermakers' Union.

The chilliness surfaced briefly yesterday at tha union's conference in Blackpool — Basnett's last before be retires.

Willis told delegates that as deputy general secretary of the TUG one of his jobs had been to read to the council the the minutes of the finance committee.

Willis, wbo before winning the *top TUC slot* was long regarded as a jovial, non-intellectual figure read the minutes in a careful, neutral way. Basnett was said to have remarked, "*If I had known* Norman Willis could read I would bave voted for him."

But Willis bas bad the last word. He told the story against himself to the conference yesterday, and then turned to Basnett saying, "In the spirit of that remark I wish you a long and happy retirement."

Pope mobile

David Pope, 45-year-old chief executive of *Hugin*, the British cash register gronp, is the unlikely broker to the marriage of two old-established Swedish manufacturing companies with *his $87m purchase* of Sweda, part of Litton Industries.

Less than two years after leading a management buy-out of Hugin from Electrolux, the *Swedish* bousehold *appliances* manufacturer, tha restless, fast-talking Pope is now buying e business for four times Hugin's size.

Hugin—the name is that of one of two messenger ravens dmployed by the Norse god, Odin, to scour the world for news—was set np in the late 1920s by the Swedisb *co-operative* movement.

Sweda was established in 1934 by a Hugin engineer, keen to branch out on his own. By the late 1950s, the U.S. had become Sweda's most important market and in 1969, the company was taken over by Litton.

Pope came on the scene wben control of Hugin passed for e time to Britain's Co-operative Whilesale Society wbere be was then working. He stayed with Hugin when ownership was transferred back to the Swedish co-op and then on to Electrolux.

Pope is confident be can get Sweda back into profits. "We've had a long rehearsal in getting Hugin right," be says. "Sweda may have four times our turnover bnt the losses at Hugin were bigger than those that Sweda bas been making."

Euro talk

The great Euro-circus could soon be a thing of the past.

The present system requires government ministers, civil servants, assorted politicians, and their advisers, to shuttle to and fro between their national capitals with monotonous regularity to attend European community meetings.

But EEC industry ministers, in Luxembourg yesterday for their monthly council meeting, were presented with a feasibility study by the commission which concludes that video conference facilities could link all 10 community capitals in the course of next yaar.

By 1987 they could all be taking part in simultaneous meetings *on-screen* without leaving their home bases.

The study (proposed by Laurent Fabius, the French Prime Minister, when he was responsible for science and research last year) backs the idea of such an installation—while admitting it would be expensive. An bour of video time on s bilateral link would cost some £600, with community-wide links costing a lot more.

The commission has already installed its own conference room in the basement of the Brussels Berlaymont and plans a trial link-up with Luxembourg in the next two weeks. It is supposed to be used in earnest *for the first time* during the Milan summit at the end of the month.

A real fear among Brussels officials, bowever, is that the *European parliament will also* get in on the act. That institution suffers from having its officials in Luxembourg, its committees meeting in Brussels, *and its monthly* plenary eessions in Strasbourg.

If MEPs were allowed to use video conference facilities, doubters ask, would they ever learn to get off the screen?

Rough translation

If Franglais is the natural result of the difficulties the English encounter with the French language, consider the possibilties wben Chinese officials tangle with the language as spoken by French-Canadians.

This happened in Shanghai when the city played host to Jean Drapeau, for nearly 30 years the mayor of Montreal. Local reports tell bow Drapesu made a point during a luncheon by saying: "It is necessary to strike while the iron is bot."—"Battre le fer quand il est chaud."

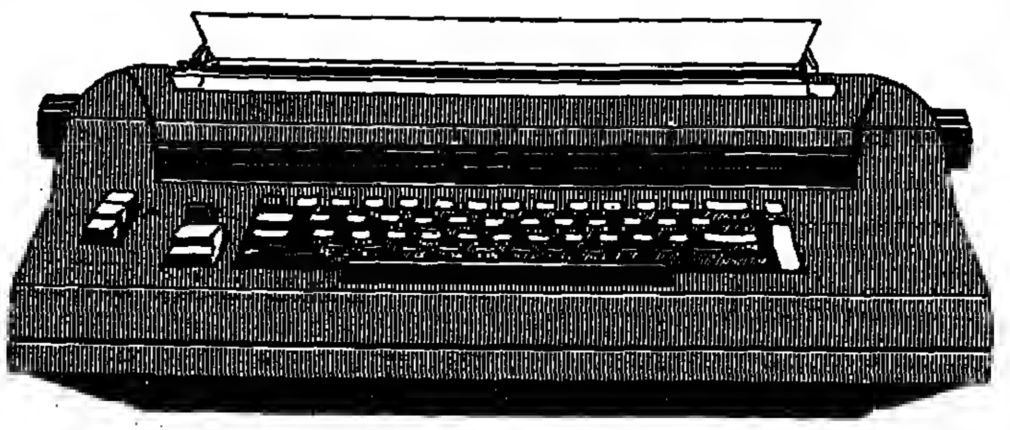
This was translated into "you must beat your brother wben be's drunk"—"battre son frere quand il est chaud." Chaud is French-Canadian slang for drunk.

At a banquet, bosted by Shanghai's mayor, Wang Daohan, Drapeau's wife, Marie-Claire, commented during a lull that it seemed as though an angel was passing—"On dirait qu'il y a une ange qui passe."

The interpreter took this as a sign of boredom, saying: "It seems as though a year has passed"—"un an qui pashse."

Without missing a beat, mayor Wang courteously responded that time was elastic and though the visit by the Canadian couple was long, it seemed it had taken only a moment.

Observer



EUROPE'S TYPEWRITER INDUSTRY

Japan keys in to a growing market

By Nick Garnett

A LIST of innocuous looking figures sent to the European offices of several Japanese-owned office equipment makers caused a major stir late last year.

The figures were provisional anti-dumping duties ranging from 7 to more than 40 per cent imposed by the EEC on electronic typewriters made by seven companies in Japan. They aimed at some of the best known Japanese corporate names like Canon, Brother Industries and Sharp.

"A lot of companies were incensed," says one corporate official on whose desk one of the telexes landed.

The duties followed a complaint to the Commission almost a year earlier by the three principal European producers—Olivetti of Italy, the West German makers Triumph Adler and Olympia supported by Ericsson's Facit company in Sweden.

Whatever the rights and wrongs of the duties—modified versions of which will be confirmed by the Commission this month—they reflect two things.

One is the ferocious battle to equip Europe's 8m secretaries in which the rapidly expanding electronic typewriter market is worth between £½bn and £1bn a year.

The other is the dramatic way in which the industry's manufacturing structure has been reshaped, partly as a result of technological changes to a machine that has been around for over a century.

Five years ago, Europe was in the pocket of four big producers—the Italian and German companies and the American IBM—with a couple of tiny concerns picking through the leftovers.

Now there are at least 15 manufacturers, more than half of them Japanese. The latter have probably less than a quarter or one-fifth of the market in terms of brand models. But some, including Brother and the extremely aggressive Canon, are worrying the long-established makers in a market in which over-the-counter purchase costs have been tumbling.

Outside these brand names, Nakajima, unfamiliar to most secretaries because it manufactures mainly for European companies, possibly makes more than any other Japanese producer.

Participants in this business wear their feelings on their shirt sleeves. "Dumping is both immoral and illegal," says Olivetti, the biggest supplier to Europe with a market share of between 25 and more than 35 per cent.

Things look different from the viewpoint of Mr Jim Cattini, general manager of Brother in the UK. "It's a last clutch at the straw of protectionism. Japanese companies are not going to abdicate from the market just because of this setback."

The response of the Japanese, whose sales efforts are being hurt by the duties, is already trickling through. Mr Katsuji Kawashima, president of Brother, which has been vacillating for 18 months over whether to set up a manufacturing operation in Europe, announced the building of a manufacturing plant at Wrexham, North Wales to employ 150 making 240,000 units a year, mainly electronic typewriters.

Dumping duties are expected to confirm Canon's move into typewriter production at its French site in Liffre where it makes copiers. Brother expects Sharp to follow suit. "We have no plans scheduled at the moment but it may be possible," says Mr Isao Nakano at Sharp in Osaka.

These will only add to the growing gang of serious competitors. IBM whose world-dominating Golfball was elbowed into the history books by the Daisy Wheel Electronic, introduced by Olivetti five years ago, is making a strong comeback in Europe with a new range of electronic machines. Rank Xerox is also trying to claw its way up the sales ladder.

What this sales war demonstrates is the astonishing industrial and marketing repercussions that can follow from a single technological development, in this case the rush from mechanical and electro-mechanical machines to electronic.

A few years ago, some observers were predicting the demise of the typewriter under the onslaught of the wordprocessor. But it is the sales growth of the wordprocessor which has slowed while the installed base of electronic typewriters in Europe has more than tripled in three years to between 2.5m and 3m machines. One estimate indicates that half of Europe's secretaries use electronic models.

The advent of the electronic machine has had three drastic results:

● Its simple construction has helped to entice companies to set up as manufacturers. As a simple container with a handful of microchips and no more than 10 moving parts as against 2,000 in a conventional machine, the electronic requires less skilled labour and much lower basic engineering capability. This has been a key factor in the fragmentation of the industry.

● Its emergence initially weakened some of the long-established makers. Relative slowness in adapting to electronic machines and the cost of converting manufacturing has been a colossal burden for some to shoulder, in particular Olympia, half owned by AEG, and the Volkswagen subsidiary Triumph Adler.

The latter two have been enduring substantial losses: DM 70m and DM 348m respectively last year. Yet they have made big strides in the past few years to remodel their manufacturing operations—Olympia at Wilhelmshaven, modernised two years ago, and Triumph Adler, has modernised its plants at Frankfurt, Berlin and Nuremburg.

Latest sales figures produced by Wharton information systems put Triumph Adler right behind Olivetti which has probably Europe's most modern production facility at Ivrea.

● The drive to offer ever greater numbers of add-ons like screens and printers that give the electronic typewriter wordprocessing capabilities have elevated it to an important role. This is emphasised by a Frost and Sullivan Consultants report last year showing that compatibility with existing equipment has taken over from reliability as the prime reason for purchase.

The lure of a yearly £2bn automation market is strengthened by another technology-governed shift. The typewriter market is lurching from a simple replacement one with machines changed every eight years to one in which equipment updating is breeding a faster replacement cycle of three to four years. This pace is likely to be quickened by products like the thermal printer (in which ink is released in response to pinpoints of heat generated by a print-head) introduced by IBM and others.

Olivetti has spread its links to companies like Toshiba and AT&T. Brother, exporting 60 per cent of its output, wants to increase office equipment to a half of its turnover (presently $3.4bn).

The provisional duties were contained in a seven-page EEC Commission regulation declaring that its price investigation found the case proved. Japanese companies like Silver Seiko and Tokyo Juki as well as Sharp, Brother and Canon had been selling equipment below "normal value," hindering the Europeans' ability to research and develop by artificially lowering profitability.

The Japanese have challenged the Commission's mathematics, in the case of Brother, through a 174-page submission. Brother is also demanding damages. "They've just got their sums wrong deliberately," says one Japanese company manager.

Others in the industry look at the sheer size of Japanese manufacturing capacity and draw their own conclusions. With the problem of trying to key in their indigenous alphabet of 3,000 characters, less than 20,000 typewriters were sold in Japan in 1983, mainly to companies needing to type with the Latin alphabet. Yet according to the EEC, the Japanese have the capability to churn out 2.5m machines a year, nearly all of which would have to be exported.

"OK, we've got an expanding market but if you have a company that goes out for more than is realistically possible you get dumping," says an Olympia official. "With these duties I think prices have begun to stabilise."

Meanwhile, the high street war rages on. In West Germany the battlefield of well-developed dealers is a relatively orderly one. It is more like an alley scrap in the UK with established dealers trading punches with outlets short on back-up service and known in the trade as "box shifters." Discounts of up to 35 per cent are on offer on some machines in a market in which an office electronic can be bought for less than an equivalent electro-mechanical eight years ago.

In the UK, Canon, which has snatched 15 per cent of the market in the past two years seems to have upset many people. Stories abound of equipment sellers given 20-year time shares in Portuguese villas.

Currently introducing five new models, Canon denies some of these more extravagant tales, saying it is simply aggressive with good products.

One of the ironies of office automation is that it is beginning to resemble older industries in the variation of machine capability on the "shop-floor"—in this case the office. Olympia recently took two big orders for office mechanical typewriters. The orders came from electronics companies.

World Oil Meeting

Opec gears up to take a 'crisis' in its stride

By Ian Hargreaves

PERHAPS THE fact that it was so predictable will help. As Opec ministers gathered in Saudi Arabia at the weekend for the first of what is bound to be a series of conversations about possible oil price cuts, there was no run on sterling and no panic in the financial markets.

On the face of it, this is odd, since the build-up to the Taif meetings, which will be followed by a full session of Opec ministers later this month, has much in common with the run-up to the famous Opec meetings of December and January, when the United Arab Emirates' Oil Minister's celebrated walk-out from a meeting in Geneva was enough to blow 3 cents off the pound. The price of Arabian Light was eventually cut by a dollar to $28—the first cut since the spring of 1983.

Today, spot prices are falling again; demand is weaker than optimists predicted and some non-Opec producers (Egypt and the Soviet Union) have cut their official prices in an effort to retain markets.

There has also been the usual rattle of anxieties from within Opec about over-production by certain still notorious members — Nigeria, Indonesia, the Emirates and Ecuador among them — and about the proliferation of barter deals and other methods of secret price discounting.

But, as Opec gears up for what will be its sixth pricing crisis since 1981, the background is also different in a number of ways.

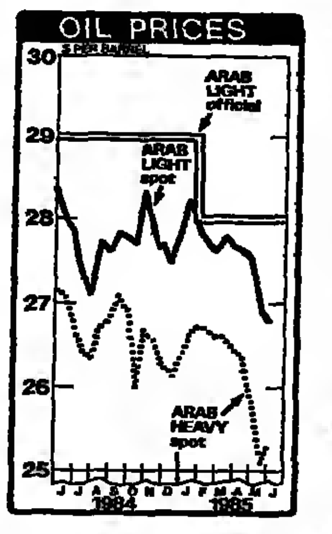
One is the very fact of familiarity with the problems, which makes it easier both for Opec and for the world at large to remain calm about the prospect of another downward twist in the glutted oil market. If Opec panics, it is as true today as it was last winter that the oil price would not slither, it would crash. But that is an enormous "if." Opec is used to surviving price crises without actually cutting its prices.

The atmosphere surrounding the latest Opec negotiations has also been eased by the withdrawal of Britain and Norway from the official oil pricing game.

But there are more substantive differences between the oil market this June and that of a year ago, when Opec ministers attempted to leave their pricing and production mechanisms untouched in the vain hope that demand would recover sufficiently.

In spite of the over-producers, for example, Opec output as a whole this year has remained quite close to the overall emergency output ceiling of 16m b/d since the beginning of 1985. This in itself was at the turn of the year.

There is also, at least in public, a more realistic attitude among Opec ministers. Mr Mana



Said Al-Oteiba, the Emirates' Oil Minister, left for Taif saying that if necessary Opec would lower its output ceiling further to defend prices. This summer there is no talk of Opec being rescued by growing autumn demand and restocking.

Indeed, it is now apparent that demand is stuck. In the OECD area as a whole, first quarter demand was 1 per cent lower than in the same period of 1984. Given the outlook for the economies of Japan and the U.S., Opec will be lucky if demand for 1985 as a whole matches the 1984 figure.

Company stocks, at 75 days' supply, are four days lower than a year ago, but no-one in the oil industry seriously expects a systematic attempt to rebuild them to a higher level. The increasingly de-integrated industry, under growing pressure to improve financial performance, is prepared to take risks it would have considered unacceptable two years ago.

Non-Opec output, meanwhile, is expected at least to match last year's production level, even if the Norwegian Ekofisk field has to be shut this summer for emergency action to shore up its sinking platforms.

This means that Opec faces at least one more year of restraint, at a time when the pressure on the economies of some of its members makes cheating on quotas close to irresistible.

The only reason this has not so far boiled over into a serious slide in oil prices has been the forbearance of Saudi Arabia, whose production is now between 2.5m b/d and 3m b/d, compared with 4.9m b/d at this time last year. The Saudis have been told by their customers that at current official prices Saudi crude is uncompetitive everywhere outside the Pacific Basin and liftings have been cut.

This is extremely serious for the Saudis, whose fourth development plan is based upon oil output of 3.85m b/d. The oil world is alive with talk about splits within the Saudi establishment. These pit Sheikh Yamani, the Oil Minister and Opec statesman par excellence, against other elements said to favour a sharp drop in the oil price. They want to rekindle demand and, at the same time, teach other Opec members the lesson that the Kingdom cannot be expected to carry Opec's less disciplined members on its shoulders indefinitely.

At this stage, there is no indication that propositions as radical as these are on the table in Taif. Ministers seem to be preoccupied with the technicalities of differentials between heavy and light oil prices, very much as they were in the squabbles which preceded last winter's definitive meeting in Geneva.

Sterling, meanwhile was firmer against the dollar in London last night.

Letters to the Editor

North Sea development

From Mr Dickson Mabon and Mr Christopher Ryan

Sir,—British Indigenous Technology Group (BRIT) represents nearly 100 companies seeking to increase the participation of UK-owned and controlled companies in the North Sea and global offshore industry. The letter from Mr Folger (May 31), suggesting that this objective is short-sighted and citing the lack of restrictions in the U.S. invites comment. Neither is true.

The North Sea generates annual contracts worth £3.4bn. Indigenous companies gain some 35 per cent of these by value, while 65 per cent go to foreign-owned companies based in Britain, or abroad.

The North Sea contribution to the British economy is not in question and the role of UK-based companies in developing our resources is recognised. Nevertheless it remains true that British-owned companies obtain just 3 per cent of the £40bn world-wide offshore engineering and service market. In part, this is due to protectionism. For example in the U.S. itself the Jones Act only permits U.S.-flagged vessels to operate in their oil and gas industry. It must also be said that there is a preference for national oil companies to deal with contractors from their own country wherever they are based.

By contrast, Britain has provided an open market and the Financial Times study published only last week found our licensing arrangements the most favourable to free enterprise of any world-wide.

Britain is entering a new phase of offshore development with the application of advanced technologies to exploit our remaining, smaller, reserves. This technology will provide its owners with the opportunity to gain a lead in off-shore development worldwide; an estimated 70 per cent of which are, like our own, marginal. Already North Sea expertise and experience is the basis for success in the international offshore industry. British owned offshore technology developed in the North Sea will enable UK enterprise to increase substantially its international offshore business and gain a continuing place in the industry after North Sea oil has gone.

While Britain has 3.5m people out of work, an economy based on international trade in manufacturing and is facing long-term decline in traditional export industries, the objective of developing a strong indigenous offshore supply industry is vitally necessary.

J. Dickson Mabon, chairman,
and Christopher Ryan, director.
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Definition of capacity

From Sir Ian Morrow

Sir,—In his article on May 29 Sir James Ball suggests that many manufacturing companies are reaching capacity and that the scrapping of uneconomic capital stock could mean there is no ability to take on further labour. This is based on the British definition of capacity which, in many industries, is single shift plus overtime.

In the U.S. and Germany capacity is normally measured on a double day shift, for example the plant works 16 hours a day. If this were done in this country the economic capacity would be there to absorb labour without further investment.

British management appears to dislike the idea of double shifts and the unions have negotiated impossibly high premiums. As long as these two factors persist, the UK will have an inflexible economic capacity, high costs and low productivity.

Ian Morrow,
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Television audience research

From Mr Nigel Newson-Smith

Sir,—"Hopelessly inadequate" is how "available data from BARB" is described in relation to a specific targeted television audience, in this case ABC1C2 housewives with children (Feona McEwan's article on May 23). The article goes on to quote Mr Billett's work in comparing total programme ratings with those of specific target groups. There are several points to be made:

1—Let no-one run away with the idea that because data are not printed in our very extensive (some say too extensive) reports they are not "available." They are, through access to the raw data via computer.

2—Yes, some of the regional panels are too small for much detailed analyses of target groups—but larger panels cost more money, and most say the service is quite expensive enough already.

3—But data can be aggregated over time and regions can be added together: neither process solves the problem, but each helps.

4—I wonder where Mr Billett gets his detailed target group analyses? If, as seems probable, from BARB data, then he destroys his own argument. If from another source, he should compare the overall figures with those from BARB to see if the contrast in target group figures is "real" or apparently caused by different sources, different methodologies.

This having been said, it is undoubtedly true that the television medium will become tougher to monitor, even after our recent methodological improvements.

No, "hopelessly inadequate" is an unfair charge.

Nigel Newson-Smith
Director,
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Obligations to state pensioners

From Mr A. D. Wilkie

Sir,—Mr David Basnett does not seem to have read my letter to you of May 24, and again suggests that government obligations to pensioners under a pay-as-you-go state scheme have the same standing as government obligations to holders of its stock. It really is not clear that this is the case and there are good reasons why it should not be so.

The quantity of government stock issued, whether fixed interest or index linked, is known and is subject to the scrutiny both of Parliament and of potential purchasers of the stock, both home and overseas. This restricts the quantity of government borrowing to what the market will stand and sets the terms for it accordingly, in relation to the real or money returns available on other investments, both home and overseas.

The accrued rights under the state earnings related scheme have not so far been recognised as liabilities in the same way. I have no doubt that the Government Actuary could place an estimated present value on them if he were asked; I do not know whether he has been asked; but the quantum of liability is not regularly made public, so it has not been subject to the same scrutiny as the government's marketable debt.

The analogy is not exact, but if an ordinary company were to go into liquidation, holders of debenture stock would have priority in payment over ordinary creditors, and present and prospective pensioners would rank nowhere except in so far as their claims had been separately funded or explicity recognised as a liability of the company.

Mr Basnett quotes Professor Benjamin's report (to which I contributed) as suggesting that privately funded money purchase pension schemes could make firm guarantees through the use of index linked stocks. He failed to continue the reference, which emphasised that the modern type of defined contribution scheme could avoid the difficulties of the old fixed terms money purchase scheme by linking the value of the liabilities directly to the value of assets, which would mainly be company securities or real assets such as property.

Since the quantity of index linked stock available at any time is limited the desire of private pension funds or of private individuals to invest in it is restrained by the yields obtained on it relative to other forms of investment.

Whether a funded scheme is defined in terms of benefits or of contributions, its ability to pay the hoped-for pensions depends on the investment returns on its assets, which depend on the returns on real capital investment, here or overseas. Government borrowing, however it is funded, may contribute to increased future productions if it is used for real public sector capital formation.

I regret, probably as much as Mr Basnett, that recent governments of both parties do not seem to have recognised the distinction between capital and current spending, and the long term benefits to be derived from the former.

Mr Basnett, in applauding your supposed demolition of the widely held belief that funding makes a reasonable level of pension provision more affordable, is dangerously close to suggesting that real capital investment does not increase the productive capacity of the nation. Some other countries organise their affairs differently, but in this country private pension funds, insurance companies and building societies have wholly dominated the channels whereby personal saving is converted into real capital formation. Pay-as-you-go schemes do not provide such a channel.

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FINANCIAL TIMES

Tuesday June 4 1985

Threat to Asia from U.S.–Japan economic 'cold war'

By David Lascelles in Hong Kong

THE EMERGING "economic cold war" between the U.S. and Jepan poses a threat to the Asia-Pacific region as a whole, Dr Mahathir Mohammad, the Prime Minister of Malaysia, warned yesterday in London.

Addressing the world's top commercial and central bankers, be said: "It is essential to note that the present tough situation can get very ugly unless effective actions are taken now to prevent conflict escalation."

Dr Mohamad also warned of the danger that the U.S. and Japan might reach e self-centred bilateral settlement of their trade dispute which would also have serious repercussions for the rest of the region.

The Malaysian premier was echoing a theme set by Sir John Bremridge, Hong Kong's Financial Secretary, who said the threat of protectionism now hanging over world trade could have extremely damaging consequences for the colony.

The international monetary conference, on its first day, examined the prospects for the Asia-Pacific region, and particularly the opening up of trade with China, where bankers have raised doubts about the sustainability of Mr Deng Xiaoping's new economic course.

Mr Wang Deyan, director and vice-president of the Bank of China, said Peking had no intention of changing its goals even though a sharp outflow of foreign exchange last year had obliged the country to tighten its purse strings. Mr Wang said China was now closely examining ways of regulating its foreign spending, including possibly a system of import permits.

He also dismissed fears expressed by some countries in the region that China would lure away their foreign investment and emerge as a new trade competitor. China's market was vast, he said, and its present trade policies were aimed at speeding internal development.

Sir Peter Walters, the chairman of BP, said that the quest for offshore oil in China had been "disappointing." But there were still interesting prospects, and be hoped China would set better terms for the second round later this year.

There was broad agreement that the political climate for trade with China is good. Mr Michael Armacost, an undersecretary in the U.S. State Department, said there was "a core of common strategic interests"

National Semiconductor cuts jobs and new plant

BY TERRY DODSWORTH IN NEW YORK

NATIONAL SEMICONDUCTOR, the third largest U.S. semiconductor manufacturer, is to cut its workforce in the U.S. and Western Europe by 1,300 over the next few months, while cancelling a proposed semiconductor wafer fabrication plant near Portland, Oregon.

The company's move, which follows similar employment reductions in most other leading U.S. chip manufacturers and several computer companies, underlines the industry's growing view that there will be no significant upturn in demand this year.

National Semiconductor had tried to avoid redundancies in its 37,000 workforce on the expectation that the market would turn up later this year, as many analysts expected.

"We have consistently tried to minimise the financial hardships on employees over the past several months through a variety of methods, including shutdowns, a wage freeze and reductions in capital expenditures," said Mr Charles Sporck, president.

"Unfortunately, the reality is that semiconductor market conditions have not shown significant improvement for the past year. We now must come to grips with this fact and adjust the corporation's cost structures to reflect current market conditions."

Mr Sporck added that he now expected a slow, phased recovery, which should be belped by a fall in inventories by the autumn. "However, general business conditions do not indicate a significant upturn in seminconductor demand this calendar year."

The impact of the protracted slump in semiconductor orders was visible in the company's results for the first quarter of this year, when earnings tumbled by 90 per cent to $1.5m, or two cents a share, from $15.4m, or 18 cents a share in 1984. Sales rose by 3 per cent from $382.8m to $394.5m, but results were hit by significant increases in the cost of sales and in both research and capital expenditures.

On the New York Stock Exchange, National Semiconductor's announcement was taken calmly, with the company's share price rising by $¼ to $11. Investors had already been prepared for cuts at the company after similar reductions at Intel and Texas Instruments, and a string of unwelcome news items in the high-technology sector over the last week.

● Siemens, Austria, is putting part of its workforce on short time because of a serious downturn in demand for micro-chips. The company said yesterday that about 500 of the 1,400 workers at one of its recently expanded and modernised plant in Villach in Carinthia will be put on n short working week for the summer starting on June 14.

Attack on UK Government's social security reform plan

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

THE BRITISH Government's proposals for reform of the social security system were generally well-received by Conservative MPs yesterday although they were strongly attacked by opposition parties.

Mr Neil Kinnock, the Labour leader, said the proposals were "a crude and cruel way of making the poor poorer, the insecure less secure and the needy more needy." He said that Labour and the trades unions would lead a campaign of opposition and he claimed the Government had already been forced to retreat from its original proposals on pensions and unemployment benefit.

Mr David Steel, the Liberal leader, accused the Government of adopting a 19th century poor law approach and of making "no real progress towards a unified system of benefits and taxation."

He condemned the abolition of the state earnings related pension scheme, in whole or part without e substantial increase in the basic pension.

Mr Norman Fowler, the Social Services Secretary, won vocal support from his own backbenchers for a skilfully presented statement. There was clear relief from MPs behind him about the long period in which the pension changes would be phased and also about the moves towards a closer alignment of social security and taxation.

Mr Fowler was helped by a below par performance by Mr Michael Meacher, Labour's social services spokesman, who was repeatedly interrupted by Tory MPs when he said the proposals represented "the reintroduction for the first time this century of Victorian values in invidious distinctions between the deserving and undeserving poor."

Mr Meacher said the Government's proposals would lead to a net loss in benefits to pensioners and the unemployed of at least £1bn a year. The main beneficiaries will be the rich, who would receive big tax cuts in future budgets.

He accused the Government of seeking to make the unemployed "the outcasts of society." They would be "the undeserving poor" in the Prime Minister's new Victorian poor law.

"This Government has trebled unemployment. With these cuts it is now gratuitously twisting the knife in its victims," he said.

The Commons undoubtedly boosted morale of Conservative MPs who had been apprehensive about the statement. In particular, Mr Fowler was felt not only to have enhanced his personal standing considerably, making himself a possible candidate for promotion in any Cabinet reshuffle but also generally to have succeeded in winning the balance of the argument with the Treasury over the proposals.

However, MPs on all sides were aware that such parliamentary aspects would soon be offset by the broader public reaction. Consequently many Tory MPs were guarded and muted in their comments, prefering to wait and see bow the highly complex package went down in the country.

UK details pensions overhaul

Continued from Page 1

employers' body, although they were condemned by most agencies concerned with the problems of poverty.

The CBI said it shared the Government's concern about the future cost of Serps and would look at the implications for private occupational schemes.

Companies would welcome the objective of greater fairness and efficiency in the provision of social security benefits, it added.

The Trades Union Congress (TUC) said the aim was to cut benefits, which protected the mass of people, in order to give handouts to the very rich.

The Government said its aim in framing reforms of the main means-tested benefits had been to simplify the existing system. Present benefit rules are set out in 16,000 paragraphs contained in two volumes. A total of 81,000 staff is needed to administer the 16m new claims each year and the review of 20m existing claims.

The main supplementary benefit system is to be replaced by a much simpler income support scheme with a guaranteed weekly income and higher rates for special groups such as pensioners, the disabled and those with children.

The emphasis will be shifted towards the needs of families, and the rates will be devised as much as possible to minimise the poverty and unemployment traps. These terms describe the problems of people who find they are better off unemployed than working, or whose marginal effective tax rates are high because they lose benefits when their pay goes up.

The main change will be to assess benefits on the basis of take-home pay rather than on the basis of pre-tax income as at present. Housing and other benefits will be assessed by a compatible system, with 100 per cent benefit paid to those below the income support level, and reducing proportions of rents paid for those above this level.

It is suggested that all claimants should pay at least 20 per cent of their rates (property taxes), an idea intended to bring some electoral discipline to high-spending local councils.

This system will be supplemented by payments from a discretionary social fund which will also be used to help people in financial emergencies resulting from a death, maternity or other causes. The universal death and maternity grants will be abolished.

The Government has also said that it would like to consult further about the idea of a discretionary retirement age for people between 60 and 70.

European plan to win star wars orders

Continued from Page 1

though he saw no particular problems over participation.

The ambiguity of the French Government's policy has been underlined by the admission from senior administration officials that there had to be links between SDI and the Eureka European high-technology programme put forward by Paris.

The officials say that co-ordination is needed to avoid unnecessary duplication in areas like artificial intelligence, implying some form of "communication" between the two projects.

M Lagardere yesterday backed the idea of "complementarity" between SDI and Eureka. Areas where Matra could participate in the U.S. programme included optex micro-electronics and software.

Sig Enrico Gimelli, managing director of Selenia, the Italian defence electronics company, said his group was also discussing SDI work with other Italian concerns.

Selenia has considerable experience in working with U.S. companies, through Nato defence deals. Sig Gimelli said Eureka should become the European contribution to the SDI effort.

Rush for places in new gilts market

Continued from Page 1

Almost all the firms who have finally applied have indicated that they intend to make a market in the full range of gilt-edged stocks from the outset. In the few instances where firms are still considering the possibility of confining their operations to the short-dated, gilt-edged stocks they have indicated their intention to extend their operations to the full range of stocks within a short period.

The bank said that 14 firms had indicated that their main interest would be institutional business, both directly and through broker dealers, with the remainder planning to cover the market generally – also directly and through broker dealers. Of these, 13 had specifically indicated an interest in providing facilities for smaller investors.

Ten firms have indicated that they expect to maintain a presence on the trading floor of the London Stock Exchange and a further five are considering doing so.

The 31 firms have indicated that they expect in normal conditions to deal in the following amounts: up to £1m, four firms will deal in conventional-coupon, short-dated stocks; 10 firms will be dealing in amounts ranging from £1m to £2.5m; nine firms in amounts ranging from £2.5m to £5m; and eight firms in £5m or more.

In conventional full-coupon, long-dated stocks, eight firms intend to deal up to £1m; 11 firms in amounts between £1m and £2.5m; eight firms between £2.5m and £5m; and four firms in £5m or more. All firms have said that they would be prepared to quote for substantially larger amounts than those indicated.

Yamaichi expands through foreign link-ups

By George Graham in London

YAMAICHI Investment Trust Management, one of Japan's leading fund management houses, is seeking to build up its overseas investment capability by linking up with independent fund managers in Europe and the U.S.

Yamaichi, an associate of Japan's fourth largest broker Yamaichi Securities, has signed contracts with Murray Johnstone and with Ivory and Sime, the two leading Scottish independent fund managers.

They will exchange research information and ideas, with the aim of developing Yamaichi's expertise in foreign equities. Information will be paid for on a fee basis.

Similar agreements are being negotiated with fund managers in continental Europe and the U.S.

Yamaichi manages assets of £10bn, but these are invested mainly in Japanese bonds and shares. A small proportion is placed in foreign bonds, but the amount invested in foreign equities is described as negligible.

Some of the investment trusts in its stable, however have global investment policies as their stated objectives.

The link between Yamaichi, Murray Johnstone and Ivory and Sime has been made possible by a recent relaxation in Japanese regulations governing investment trusts.

The trusts are still not permitted to have sections of their portfolios managed directly by outside investment managers.

Mr Hitoshi Tanaka, Yamaichi Securities' director in Europe, said the group hoped eventually to develop closer links with foreign fund managers, but it would be premature to consider anything yet.

Another of the four leading Japanese brokers is understood to be discussing similar links with overseas fund managers.

U.S. groups link to offer home banking

By Our New York Staff

FOUR major U.S. corporations are grouping together in a new venture, aimed at broadening the types of services offered to private and business users of home computers.

The four – the AT&T telecommunications giant, Bank of America, Chemical Bank and Time, the publishing group – said yesterday that the joint company will "develop, produce and nationally market electronic banking, brokerage and other services to consumers and small businesses."

In a joint statement yesterday, they said that other financial institutions would be sought both as information providers and distributors. These additional companies are expected to include businesses capable of offering catalogue shopping, travel services, and other financial management systems.

The new venture underlines the rapid growth of the U.S. home computer market and the steady expansion of electronic services for small business and private computer users. Two other groups have already been established to provide similar facilities, one of which includes IBM, CBS and Sears Roebuck, and the other RCA and Citicorp.

The new company will draw to some degree existing services offered by some of the participants. Both Bank of America, the second largest U.S. banking group, and Chemical, one of the larger New York banks, already provide home banking facilities to subscribers, and Bank of Amerika offers discount brokerage in California, where it is based.

Deadlock in fighter talks

Continued from Page 1

By counting the 9.5 to 9.75 tonne range as an in-service weight – where the aircraft could contain equipment not included in other countries' concepts of "design weight" – France seemed again to be advocating a basically lighter fighter than required by Britain or West Germany.

Confusion over the talks was accentuated yesterday when France renewed the call for a lighter jet to meet its need for a naval version. But tensions have also been heightened by a tough statement at the weekend from Herr Manfred Wörner, the West German Defence Minister, that neither existing British nor French fighter projects satisfied his Government's requirements.

World Weather

Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Lloyd's set for growth

BY JOHN MOORE IN LONDON

THE authorities of the Lloyd's insurance market in London are forecasting "a further substantial increase" in the number of individuals applying to become underwriting members of the market.

In the latest report and accounts of the Corporation of Lloyd's, published yesterday, underwriters are told that the number of members of Lloyd's at the beginning of 1985 was 26,050, representing an increase of more than 11 per cent on the previous year.

Members are told that investigations have now largely been completed into those cases of alleged misconduct which came to light at the end of 1982.

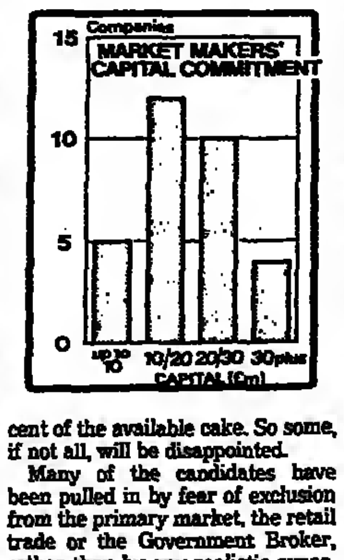
"In consequence, a number of cases have been heard by Lloyd's disciplinary committees. The verdicts and penalties have, in some cases, been considered at special meetings of the council (which governs Lloyd's) and the findings of the disciplinary committee and the council's decisions made public."

During 1984 the corporation, which provides Lloyd's central services, recorded that its expenses increased by 15.5 per cent to £73.2m ($94m). Net revenue for the year, including operating profits of subsidiary companies was £23.7m.

THE LEX COLUMN

Musical chairs in gilt-edged

The prospective gilt-edged market makers are an intrepid bunch. None of the candidates for a Bank of England licence can by now be surprised to learn that 30 other companies are knocking on the Bank's door and yet it must be obvious to all but the most fanciful that even an enlarged gilts market will not be big enough for everyone to find a profitable space. All may make markets, but not all will make money.



The Bank may pin up a slightly shorter list of names on the notice board in a fortnight's time but it is unlikely that many will drop out between now and then. The Bank has consistently taken the view that all serious and persuasive candidates should be allowed a place, while the market makers themselves have already had ample time to measure the risks and rewards.

The introduction of real competition to the gilt-edged market will have a positive effect on trading volume. Turnover in gilts has recently been growing at an average annual rate of between 15 per cent and 20 per cent, which should accelerate as transaction costs fall. And the arrival of the inter-dealer broker will create a new internal market which might rapidly account for 50 per cent or more of total business. But particularly in the early stages, when all the big players will be grabbing for market share, that extra volume may provide precious little return.

At present, a large institutional client would be confronted with a jobber's spread of about a quarter point on a substantial bargain in high coupon longs and, on top of that of course, commission would be payable. In the new market, the client may well escape with a total dealing cost of an eighth of a point.

So volume will need to increase out of all recognition if the market makers are to earn an adequate return on their aggregate investment of between £500m and £700m. In the U.S. there are 37 licensed primary dealers operating in a market roughly 10 times the size of London. And earning profits as a market maker on Wall Street is not the simplest occupation in the world.

Each of the candidates believes, not surprisingly, that it has something special to offer. The problem is that the numbers fail to add up. The market makers have cited target market shares which add up to between 150 per cent and 200 per cent of the available cake. So some, if not all, will be disappointed.

Many of the candidates have been pulled in by fear of exclusion from the primary market, the retail trade or the Government Broker, rather than by any realistic expectation of a worthwhile profit. The Bank's laisser-faire approach may look just and reasonable today; but when the market opens – ahead of an election and possibly in a period of rising inflation – it may be seen in a rather different light.

Pensions

The business of life assurance requires the longest possible view, and the equity market duly winched up the sector at the rather distant prospect of the abolition of Serps. Having passed through the budget with their taxation regime intact, the life offices must be feeling doubly blessed at the sight of a flow of pension savings which – for all the UK Government's discussion document's bows to competition – they look best placed to handle. The sector rose by over 2 per cent on the day.

That such a root-and-branch reform lacks parliamentary consensus may dull enthusiasm for what looks set to be a bonanza for the equity market. An extra £2bn or so a year diverted from the Government accounts into institutional cash flow should come in handy just before an election – and in the midst of the flotation of British Gas.

But quite outside what is bound to be a lively political debate, the Government is asking quite a lot of the equity market. If the discussion document believes that the economy cannot afford open-ended pension liabilities through Serps, it takes imagination to contend that even additional investment through the market will see the pension system over the demographic hump. The very recent success of the equity market, which has made money-purchase schemes attractive, is scarcely the most solid basis for predictions into the next century.

As for corporate contributions, these have been pitched so low in the document as almost to invite political mud-slinging. But even a contribution of 2 per cent from companies – and 2 per cent from employees – is only a minimum and business will face pressure to do more. But this will go some way to compensate the market for the loss of contributions from those corporate wise virgins with overfunded schemes.

Debenhams

It is plain as can be that not all the riches of Croesus – let alone those of the brothers al Fayed – could enable House of Fraser to bid for Debenhams; on grounds of competition policy alone that possibility must surely be excluded. That the 4.99 per cent of Debenhams acquired by Fraser has the potential for being used in a defensive or obstructive manner was naturally enough pointed out by Burton; and it does seem that if Fraser could frustrate the Burton offer, it would afterwards have a marginally easier time trading against Debenhams up and down the country.

Yet the logic of buying even a small proportion of Debenhams at a price of almost £4 per share – about 60p above the safety-net of Burton's terms – is more ambitious than a mere blocking manoeuvre. What is at stake, surely, is a bargaining position for Fraser when the battle for control of Debenhams reaches its decisive phase.

Assuming that a successful classical defence is the least likely outcome, Fraser is effectively making an appointment with either Burton or a changed management team that will need to sell a lot of assets after the buyout. And since a Burton victory would almost certainly require an increased offer – thanks in part to last week's buying by Fraser – Burton may well be an equally willing seller of the Debenhams property book. One thing is clear in this murky tale: Fraser has not risked £4m on a bargaining hand that it does not intend to play.

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SECTION II – COMPANIES & CAPITAL MARKETS
FINANCIAL TIMES
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Litton up in third quarter as sales drop

By Our Financial Staff

LITTON INDUSTRIES, the California-based technology group, yesterday reported a rise in third-quarter earnings from $75.9m, or $1.77 a share, to $81.5m, or $1.91. The rise comes despite a fall in sales from $1.21bn to $1.18bn and takes net earnings for the nine months ended April 30 to $223.4m, or $5.24 a share, compared with $239.5m, or $5.60.

The earlier period, however, includes $36m, or 85 cents, from discontinued operations and an anti-trust judgment in favour of the company. Sales for the latest nine-month period were $3.47bn, up marginally from $3.45bn a year earlier.

Mr Fred W. O'Green, chairman, said most of the company's operations recorded improved earnings over year-ago periods.

Earnings were higher at Litton's advanced electronic systems and shipbuilding businesses, and in the industrial systems and services business segment, including geophysical services and industrial automation systems.

The company's electronic and electrical products earnings were lower, reflecting the absence of the magnetic components division which was sold in 1984, and softness in the markets for the sector's products.

● **Charles Batchelor writes from London:** Hugin Group, the British manufacturer of cash registers and point-of-sale systems for retailers, is to pay $67m for Sweda, a Litton subsidiary which also makes cash registers.

Sweda's sales are four times those of Hugin and will make it one of the largest suppliers of point-of-sale systems alongside NCR Corporation, National Semiconductor Corporation, IBM and Nixdorf, the West German group. A few years ago Hugin was struggling to survive as part of Electrolux, the Swedish domestic appliance maker.

Hugin, which was bought out by its management from Electrolux just over 18 months ago, yesterday carried out a one-for-one rights issue to raise £23.5m net of expenses to meet part of the purchase cost.

Litton will become a 20 per cent shareholder in Hugin as a result of this deal. Hugin's shares are at present held by 30 UK institutions and its management, but the company expects to seek a UK stock market listing in late 1986 or early 1987.

Hugin nearly doubled its pre-tax profits from £390,000 to £740,000 in the six months ended June 1984 on turnover which rose from £13.8m to £19m.

Sweda made a cumulative loss of $25m before interest charges in the 3½ years ended January 1985, including a loss of $4m on turnover of $160m in its last full year to July 1984.

Gallaher

GALLAHER, the UK cigarette producer, is a subsidiary of American Brands, not R.J. Reynolds as reported yesterday.

John Davies in Frankfurt looks at the logic behind Conti-Gummi's deal with Semperit

Stepping up the pressure in Europe's tyre war

CONTINENTAL Gummi-Werke of West Germany sees many advantages in its takeover of a 75 per cent stake in the tyre operations of Semperit of Austria but aims at an arm's length relationship rather than strong centralised control.

The deal – finalised last week after years of on-off talks – is a major development in the struggle for market share and for survival in the European tyre industry.

Conti-Gummi, which was close to ruin more than a decade ago, has steadily become stronger and more international. The Semperit takeover is a further stage in its strategy of broadening its horizons and improving its profitability in a difficult environment.

The West German group is paying DM 47m ($15.28m) for its controlling stake in Semperit's tyre division retrospectively from the beginning of this year but is not buying into Semperit's other loss-making rubber products business.

In terms of volume, Conti-Gummi is gaining a useful increase in overall market share. With about 13.5 per cent of the European tyre market, it already claims to be number two after Michelin of France and ahead of Pirelli, Goodyear and Dunlop-Sumitomo. By gaining a further 3.5 per cent market share through Semperit, the Conti-Gummi group would increase the distance from its challengers.

In addition, the different profile of the two companies means that they would complement each other and benefit from working together, according to Herr Helmut Werner, Conti-Gummi's chief executive.

Semperit, for instance, is relatively strong in the replacement tyre market, partly as a result of Austria's lack of a national motor vehicle industry. The replacement market offers the prospect of higher profit margins than the motor vehicle manufacturers' original equipment market.

The Austrian company also has a strong position in the truck tyre market and will boost the Conti-Gummi market share in this line of business by as much as 50 per cent.

Left: Helmut Werner, Conti-Gummi chief executive: attacking new market segments

CONTI-GUMMI GROUP'S FIVE-YEAR RECORD

	Sales DMbn	Profit DMm
1980	3.16	26.1
1981	3.23	*17.8
1982	3.25	18.3
1983	3.39	40.2
1984	3.53	41.2

*Loss

Herr Werner also points to Semperit's foothold in Japan, where it has built up sales of 900,000 tyres a year to Japanese vehicle manufacturers. This outshines Conti-Gummi's own success in opening up a market for 250,000 tyres a year in Japan, consisting of 200,000 tyres made in co-operation with a Japanese partner and 50,000 tyres imported from Europe.

Conti-Gummi, which took over the European operations of Uniroyal of the U.S. in 1979, now gains a third tyre brand in addition to Continental and Uniroyal. As a result, executives see the way open to an intensified policy of attacking new market segments through differentiated brands. "We could not do that before without cannibalising one of our brands," says Herr Werner. "We can do it more easily with Semperit."

He also sees prospects of co-operating in purchasing raw materials in financing, in marketing and in physical distribution of products.

Herr Werner dismisses any suggestion that Conti Gummi may have bought a problem. "It is false to say that Semperit is an absolute nobody," he says.

Semperit has made great progress in reducing its losses, he says. It is tackling its cost structure and has shown that it can introduce new products.

Semperit's tyre division, which broke even last year, will add almost another DM 1bn to Conti Gummi's group sales revenue of DM 3.5bn a year. About DM 740m of this increase arises from tyre manufacturing and the remainder from trading and other business. About 70 per cent of Semperit's tyre sales revenue comes from outside Austria.

The plan already underway to restructure Semperit's tyre factory at Traiskirchen near Vienna is to continue, along with the state subsidy to finance the modernisation. Conti Gummi has already carried out similar restructuring in its own operations and believes this experience will be useful to Semperit.

Equipment at Traiskirchen could be made compatible with that elsewhere in the group, so that product specifications could be identical, but in general Herr Werner envisages an "arm's length" relationship with the Austrians. Not only production but also research and development will continue to be carried out in Austria, which will become a third development centre for the Conti-Gummi group in addition to Hanover and Aachen.

Conti-Gummi executives assert that the price of DM 47m for its 75 per cent stake is fair rather than low. The Semperit operation will not make a profit "tomorrow morning," says Herr Horst Urban, Conti-Gummi's finance chief.

Moreover, Conti-Gummi will bear half the costs associated with the scaling down of the workforce at Traiskirchen under the existing restructuring plan. On the other hand, Semperit losses could produce tax benefits.

Herr Urban denies that the takeover is a "defensive move" to prevent rivals stepping in. With the European tyre industry under pressure, Conti-Gummi would have to take over a lot of factories if it were bent on such defensive moves, he adds.

The West German group is buying only into Semperit's tyre operations (including its factory in Dublin, Ireland, and its 27.7 per cent stake in the Yugoslav Sava tyre concern). It is not buying into technical rubber products, which are separate units under the Semperit holding company.

Some technical rubber products are at present made at the Traiskirchen tyre plant but are to be moved out. Conti-Gummi's own technical rubber products division (sales DM 900m a year) will continue to compete with Semperit in some markets.

The deal will alleviate the problems of Creditanstalt Bankverein, the Austrian bank which owns almost all of the Semperit holding company. The bank, which is majority owned by the Austrian government, has been looking for ways to ease the financial burden of problem areas in its industrial holdings. Semperit has long been debating the need for a partner as a means to survive.

The takeover – which still requires the approval of the West German Cartel Office – is Conti-Gummi's second big acquisition move since it broke out of its national constraints by buying Uniroyal's European operations six years ago.

In an industry afflicted with overcapacity and tight margins, Conti-Gummi has relentlessly pursued a policy of rationalisation, technical improvements in products and co-operation with partners abroad.

It has obtained a foothold in the U.S. through the manufacture of Continental tyres by General Tire and Rubber, while in Japan it has a similar venture with Toyo Tire and Rubber. Other international links include partnerships with Modi in India, and General Tire and Rubber in South Africa.

Conti-Gummi's cult of cost control and technical improvement arises from the realisation that the industry's trends are becoming more and more demanding. Advances such as longer-lasting tyres are tending to make the market smaller, as well as shifting the balance a little more to vehicle manufacturers for the low-margin original equipment market.

It is currently pressing ahead with plans to launch a new tyre, the so-called ContiTyreSystem, which hooks over the rim of a wheel rather than hanging from it. The company claims this would be safer and last longer and could eliminate the need for vehicles to carry a spare wheel.

Conti-Gummi claims to have found partners for this project among other tyre manufacturers – a key point if the tyre is to have broad acceptance in the motor vehicle industry.

Conti-Gummi's recovery began under the management of Dr Carl Hahn, now head of Volkswagen. Herr Werner, his successor as chief executive since the beginning of 1982, has consolidated the company's strength.

After heavy losses in the early 1970s and a further setback in 1981, Conti-Gummi made an increased net profit of DM 49.3m last year and has paid a dividend for the past two years in succession. It made a payout to shareholders only once in the previous 11 years.

Herr Werner, who manages to combine a hard line with a persuasive manner, came to Conti-Gummi through the West German group's takeover of Uniroyal.

In a conciliatory reference to Semperit executives he has remarked: "If you look at me, you see how Continental handles people it has taken over." But as Herr Urban added irreverently: "That's not to say we have any plan to make a Semperit man head of Continental."

CONTINENTAL Gummi-Werke's purchase of a 75 per cent stake in the tyre operations of Semperit is not expected to affect the rest of the Austrian company's activities, nor are any other parts of the Semperit group up for sale for the time being, writes Patrick Blum in Vienna.

Earlier this year Semperit sold its 50 per cent share in Semperit-Kern of Canada and a small manufacturing plant near Vienna. The deal with Conti-Gummi has raised expectations here that other parts of the company may be sold off in the near future. But Creditanstalt Bankverein, which owns almost entirely the three other Semperit companies, said yesterday that they would be brought back to profitability before any further disinvestment.

Semperit Technische Produkte, the largest of the three, which manufactures conveyor belts and other specialised products including surgical gloves – of which it claims to be the world's leading producer – and Semperit Schaumstoff und Kunststoff, which specialises in anti-corrosion equipment, both made losses. For Technische Produkte these are said to be primarily due to large allocations to reserves.

France launches FFr 15bn bond

By David Marsh in Paris

THE French Government has launched a FFr 15bn ($1.6bn) 15-year domestic bond issue, on sale from banks, as its second major capital market operation so far in 1985.

The issue is split into two tranches, the first with a coupon of 10 per cent issued at 95 per cent, and the second with a floating interest rate linked to yields on existing issues of more than seven years on the secondary market.

Each tranche is being issued for a minimum of FFr 5bn. The Treasury reserves the right to issue fresh tranches of the bond in order to provide a "tap" of available stock for the market.

Although the Government has already introduced "renewable bonds" – the last of which was launched in April – to keep regular supply of paper in the market, the latest bond marks the first time that France has moved to issue a true "tap" stock of the kind traditionally offered in the UK.

Wide-ranging shake-up at Alcan

BY ROBERT GIBBENS IN MONTREAL

ALCAN Aluminium is restructuring its corporate organisation to reduce the layers of management. Aluminium Company of Canada, the main operating company, will become known as Alcan Canada and be grouped into four operating entities for Canada and the U.S.: materials, primary and secondary metals, rolled products, plus fabricated and downstream operations.

The functions of Alcan Canada Products, the Canadian fabricating unit, will be absorbed by the headquarters group in Montreal. Mr Timothy Tuff, 38, now vice-president of Alcan Canada Products, will become president of Alcan Aluminium of Cleveland, the main U.S. subsidiary, following the retirement of Mr Roy Gentles. Mr Tuff will also be responsible for a new Boston office.

Alcan Aluminium will continue to own and manage the U.S. businesses, but operating responsibilities will be shared by the heads of the four operating entities for North America.

Holderbank plans SwFr 60m rights

BY JOHN WICKS IN ZURICH

HOLDERBANK, the Swiss-based cement-industry holding company, plans to raise SwFr 60m (£23.16m) by a rights issue.

Terms are one new bearer share of SwFr 500 nominal value at a unit price of SwFr 1,000 for every five existing registered shares or every 25 existing bearer shares. It will increase Holderbank's share capital by SwFr 30m.

At the same time registered shares with a nominal value of SwFr 30m will be issued without drawing rights reserved for discretionary placing, for guaranteeing conversion or warrant rights from future bond issues, for purchase of new participations.

A reorganisation of the company's capital structure is also planned. Registered shares will remain unchanged with a nominal value of SwFr 500 but existing bearer shares of SwFr 100 nominal value will be consolidated into new units of SwFr 500 each, while holders of five existing bearer shares will be able to exchange these for registered shares.

The new bearer shares will, like registered shares, entitle holders to one vote each.

INTERNATIONAL BONDS

Eurodollars trail U.S. market

BY MAGGIE URRY IN LONDON

THE EURODOLLAR bond market is continuing to lag behind a sharply rising New York bond market. Investor nervousness about the dollar has meant that yields, even on top-quality Eurobond issues, are now well above U.S. Treasury yields – making it hard for syndicate managers to bring new issues.

Yesterday Eurodollar fixed-rate bonds gained around ½ point, well below the rise in the New York market.

Denmark was the latest borrower to use the partly-paid formula to make an interest rate swap work. The $100m issue, led by Kleinwort Benson, has a seven-year maturity and a 10⅝ per cent coupon. Issue price is 100⅝, of which 15% is payable on July 11 this year, with the remaining 85 due on the same date next year.

The issue looked tightly priced at first, but the rise in the market helped to keep it trading inside the 1⅞ per cent fees.

Sonat Finance, a subsidiary of a U.S. holding company which owns Southern Natural Gas, launched a $100m issue led by Swiss Bank Corporation International. This has a seven-year life, an 11⅛ per cent coupon and a par issue price, all of which is payable up front. Fees are 1⅞ per cent, and the issue was caught up in the market surge and was bid at 99 by the close.

The bonds carry a negative pledge, and if the guarantor, the parent company, wishes, for example, to make an acquisition which would not comply with the pledge, the bond holders can ask for redemption of the bonds at par.

EHF Bank bond average

June 3		Previous
102.770		102.658
High	1985	Low
102.800		99.840

Nippon Kokan, the Japanese steel group, launched a $50m issue led by Bankers Trust. The five-year bonds guaranteed by Fuji Bank, have a 10 per cent coupon and 100⅜ issue price.

Nippon Kangyo Kakumaru was the first Japanese securities house, outside the big four, to issue a convertible bond. The $50m issue has a 15-year maturity and indicated 3 per cent coupon. The deal was led by Nippon Kangyo Kakumaru and traded well inside the 2½ per cent fees.

Another convertible was launched for Thomson-CSF, the French electronics group. This also raises $50m with redemption in 2000. The coupon was indicated between 6⅞ and 7 per cent, while the conversion premium is expected to be around 8 to 10 per cent. Morgan Stanley is the bookrunner, and the bonds were trading around the par issue price.

The floating-rate note market was bereft of new issues last week following the jumbo issue from the EEC the week before. But syndicate managers were back in action yesterday, and Crédit Lyonnais launched a $250m, 15-year deal. This has an interest setting of ⅛ per cent over six-month London interbank offered rate Libor with front-end fees of ⅜ per cent. Crédit Lyonnais is running the books. The issue was trading inside the 10 basis point selling concession, offered at 99.95.

Crédit Suisse First Boston took the brave step of launching a floater for Comerica, a U.S. regional bank, which is the country's 35th largest. These banks are not the most popular Euromarket names at present. The $75m issue has a 12-year life and pays a coupon of ⅛ per cent above three-month Libor.

Fees total 1⅛ per cent and the bonds were moving slowly, with some sales being made within the fees.

Another D-Mark floater appeared – a DM 500m issue for Ireland led by Commerzbank. Co-leads are Bank of America, Deutsche Bank and S.G. Warburg. Non-German owned banks are increasingly appearing as co-leads on D-Mark Euro-bonds, though one has yet to be seen running the books on an issue.

The deal pays interest at ⅛ per cent over six-month Libor for the first eight years and then drops to ⅛ per cent over the same rate. Fees total 14 basis points, with the borrower paying an extra 10 basis points for a Frankfurt listing. The issue was trading around the 9 basis points selling concession.

Morgan Grenfell brought General Motors Acceptance UK Finance to the Eurosterling market for a £30m issue, which comes only three months after the borrower's last Eurosterling deal, now trading around 101. The five-year issue pays a 10⅝ per cent coupon compared with 11 per cent last time. Issue price is par.

International bond service, Page 18

INTERNATIONAL COMPANIES and FINANCE

Italian natural gas utility increases net profits 26%

BY ALAN FRIEDMAN IN MILAN

SNAM, the gas subsidiary of the ENI state energy group, yesterday reported a 26 per cent increase in 1984 net profits, to L90.6bn ($45.8m). The rise in profits, after heavy depreciation charges of L693bn, was struck on Snam turnover of L9,506bn ($4.8bn), up by 33 per cent.

Natural gas represents 18 per cent of Italy's total energy consumption, and Snam accounts for nearly all gas distribution in the country. Last year gas sales amounted to 31.3bn cu m, a rise of 17.6 per cent on 1983. Of this total, nearly 61 per cent of the gas was imported.

The Soviet Union last year supplied 24 per cent of total gas in 1984, while Algeria came second, with 20.7 per cent. The Netherlands accounted for 14.6 per cent of the total.

Dr Enzo Barbaglia, Snam chairman, said the company last year spent L1,247bn toward the completion of the Algerian-Italian gas pipeline, which by 1990 should account for 30 per cent of all gas distributed in Italy, or 12bn cu m of annual Algerian gas imports. The total project is costing $4bn of which Algeria is contributing $1.4bn. This year Algerian gas will account for a quarter of total Italian consumption.

On a consolidated basis, Snam's 1984 net income was doubled to L345bn.

U.S. tools group in the market for acquisitions

BY ANDREW BAXTER IN LONDON

STANLEY WORKS, the major U.S. hand tools and industrial products group, is "actively looking" at half a dozen companies – one of them in Europe – as potential acquisitions, Mr Donald Davis, chairman and chief executive officer, said in London yesterday.

The Connecticut-based concern, best known in Europe for its hand tools, including Stanley knives and tape-rules, is focusing on two main strategic areas, do-it-yourself and professional/industrial tools, for future growth, he said.

Any acquisition would be financed with cash or stock, or both, and the company would seek to continue buying businesses for a modest price which it could combine with its existing lines.

Stanley, which last year reported net earnings of $72.4m on sales of $1.16bn, is a major factor in the world market for do-it-yourself equipment but also produces a wide range of equipment for the professional construction industry and industrial consumers.

The company has been hit over the past few years by a combination of the 1980-81 U.S. recession and a surge of low-cost competition from the Far East. But Mr Davis said Stanley had moved to anticipate these problems earlier than its U.S. competitors.

Employment has been reduced from 16,000 five years ago to 14,700, and factories closed in France, Venezuela, Canada and the U.S. In the UK, employment at Sheffield, where Stanley has four plants, has been cut drastically.

However, Mr Davis said Stanley had maintained market shares and would continue to seek ways to reduce costs. Rationalisation measures include a recent move to switch worldwide production of high-quality planes to Sheffield and the introduction of a range of competitive Mexican-made nail hammers to the U.S. and Canadian markets.

The company, which last week appointed Mr Richard Ayres, formerly executive vice-president, as president and chief operating officer, expects another record year of sales and profits this year, despite a first quarter which was less successful than expected.

Eli Lilly wins court ruling on back taxes

ELI LILLY, the big U.S. drugs group, has won a U.S. tax court ruling that could significantly reduce its $142m back tax bill from the Internal Revenue Service (IRS), AP-DJ reports from Indianapolis.

The ruling by Judge Darrell Wiles could have an even bigger effect on G.D. Searle, another pharmaceutical group, which has been asked to pay $499m in back taxes by the IRS. The potential tax liability was one reason Searle had to drop attempts to find a buyer earlier this year.

Both cases involve the two companies' practice of recording profits in their subsidiaries in Puerto Rico. For years, drug companies recorded the expense of developing drugs at their domestic units, then shipped the patent to a Puerto Rican unit. The drug was manufactured in Puerto Rico and sold back to the domestic unit for distribution, allowing the company to book much of the profit in Puerto Rico, where the tax rate was lower.

A 1982 tax-law change made that practice less attractive, tax lawyers said, but the dispute over taxes from previous years remains for Lilly and Searle. Many other big pharmaceutical companies with Puerto Rican subsidiaries have already settled similar tax disputes.

In the Lilly case, the IRS contended that Lilly's gross profits on Darvon and Darvon-N pain relievers should be recorded by the domestic unit and not the Puerto Rican subsidiary. Judge Wiles rejected that, but did rule the Puerto Rican unit overcharged its U.S. parent for the drugs. A Lilly spokesman said the ruling appears to reduce the company's tax liability for the years 1971-73 to about $14m from $34m.

Earnings slide at Anderson Clayton Brazil

By Ann Charters in São Paulo

ANDERSON CLAYTON, Brazil's leading commodities trading company, had a decline in earnings in the fiscal year ending in March, despite a strong export performance.

Earnings were down to 6 per cent of sales of Cr 616.8bn ($448m, at an average 1984 exchange rate) compared with the previous year's results of 9 per cent on sales of Cr 281.2bn ($457m). In cruzeiro terms, sales advanced 290 per cent, well ahead of the 12-month inflation figure of close to 230 per cent.

The company said the drop in earnings was partly a reflection of a particularly profitable fiscal 1984, with factors such as cheaper financing on commodities and purchase of fixed price soyabeans which were not present in the previous year.

For fiscal 1985, on the domestic side, a retraction in consumer product sales, experienced by the industry as a whole, affected both the consumer products and the feed division. Despite growth in Brazil's GNP of 4.5 per cent last year, per capita income in real terms shrank to less than the 1976 level.

Exports, primarily of soyabean oil, plus soyabean meal and cotton seed oil to U.S. and European markets, accounted for 35 per cent of sales.

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. The following are closing prices for June 3.

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average price change On day [illegible] on week [illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

DAIWA EUROPE LIMITED

JAPANESE EQUITY WARRANTS SERVICE

ISSUER—Warrant expiry date	Wrnt BID (%)	Wrnt OFFER (%)	Share Price (Yen)	Premium (%)	Gearing	Premium/Gearing Ratio
CASIO 6/3/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C ITOH 4/5/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C ITOH 20/1/87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FUJIKURA CABLE 26/4/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HAZAMA GUMI 1/11/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
J S R 28/4/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
JUSCO 22/12/88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KAYABA 15/2/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KUMORI PRINT 20/12/88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MARUZEN 12/2/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MINEBEA 20/2/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MIT CHEM 20/1/87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MIT CORP 7/11/88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MIT GAS 20/3/88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MITSUI E/S 15/10/88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MITSUI E/S 10/12/87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MIT METAL 10/2/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MIT METAL 10/11/88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MITSUI PET CHEM 16/2/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NIPPON MIN 17/3/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NISSHO IWAI 1/2/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NOMURA 31/10/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OHBAYASHI GUMI 5/4/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OMRON TATEISHI 31/3/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ONODA CEMENT 10/4/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ONODA CEMENT 28/2/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OPTEC DAI-ICHI 22/2/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OSAKA TRANSFORMER 29/1/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RENOWN 24/1/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RYOBI LTD 25/5/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SEINO TRANSPORT 17/3/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SEIYU STORES 20/3/87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SONY CORP 26/4/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SUMI CONSTRUCTION 24/3/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SUMI HEAVY 24/2/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SUMI REALTY 21/11/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOKYO ELECTRIC 16/3/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOKYO SANYO 8/6/87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOKYU CORP 29/1/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TORAY 5/3/87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOYO ENG 28/2/89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YAMAMURA GLASS 6/5/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YAMATO KOGYO 29/1/90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Reuters Monitor DABF/G/H/I/J • Further information from: Freddy Glock, Simon Gamse or Beverly Kelly on 01-248 8080
Daiwa Europe Limited, 14 St Paul's Churchyard, London EC4M 8BD

BASE LENDING RATES

A.B.N. Bank	12½%	C. Hoare & Co.	†12½%
Allied Irish Bank	12½%	Hongkong & Shanghai	12½%
American Express Bk.	12½%	Johnson Matthey Bkrs.	12½%
Amro Bank	12½%	Knowsley & Co. Ltd.	13½%
Associates Cap. Corp.	12½%	Lloyds Bank	12½%
Banco de Bilbao	12½%	Edward Manson & Co.	13½%
Bank Hapoalim	12½%	Meghraj & Sons Ltd.	12½%
BCCI	12½%	Midland Bank	12½%
Bank of Ireland	12½%	■ Morgan Grenfell	12½%
Bank of Cyprus	12½%	Mount Credit Corp. Ltd.	12½%
Bank of India	12½%	National Bk. of Kuwait	12½%
Bank of Scotland	12½%	National Girobank	12½%
Banque Belge Ltd.	12½%	National Westminster	12½%
Barclays Bank	12½%	Northern Bank Ltd.	12½%
Beneficial Trust Ltd.	13½%	Norwich Gen. Trust	12½%
Brit. Bank of Mid. East	12½%	People's Trust	14%
■ Brown Shipley	12½%	Provincial Trust Ltd.	13½%
CL Bank Nederland	12½%	R. Raphael & Sons	12½%
Canada Permanent	12½%	P. S. Refson	12½%
Cayzer Ltd.	12½%	Roxburghe Guarantee	12½%
Cedar Holdings	13%	Royal Bank of Scotland	12½%
■ Charterhouse Japhet	12½%	Royal Trust Co. Canada	12½%
Choulartons	13½%	■ J. Henry Schroder Wagg	12½%
Citibank NA	12½%	Standard Chartered	‖12½%
Citibank Savings	¶12½%	TCB	12½%
Clydesdale Bank	12½%	Trustee Savings Bank	12½%
C. E. Coates & Co. Ltd.	13½%	United Bank of Kuwait	12½%
Comm. Bk. N. East	12½%	United Mizrahi Bank	12½%
Consolidated Credits	12½%	Westpac Banking Corp.	13%
Co-operative Bank	*12½%	Whiteaway Laidlaw	13½%
The Cyprus Popular Bk.	12½%	Williams & Glyn's	12½%
Dunbar & Co. Ltd.	12½%	Wintrust Secs. Ltd.	12½%
Duncan Lawrie	12½%	Yorkshire Bank	12½%
E. T. Trust	13½%		
Exeter Trust Ltd.	13½%		
First Nat. Fin. Corp.	13½%		
First Nat. Secs. Ltd.	13½%		
■ Robert Fleming & Co.	12½%		
Robert Fraser & Ptns.	13½%		
Grindlays Bank	12½%		
■ Guinness Mahon	12½%		
■ Hambros Bank	12½%		
Heritable & Gen. Trust	12½%		
■ Hill Samuel	§12½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 9½%, 1 month 10¼%. Top Tier—£2,500+ at 3 months notice 12½%. At call when £10,000+ remains deposited.
† Call deposits £1,000 and over 9½% gross.
‡ 21-day deposits over £1,000 10½%.
§ Mortgage base rate.
** See Provincial Trust Ltd.
¶ Demand deposits 9½%.

INTL. COMPANIES & FINANCE

Drug producers hit by price cuts

BY CARLA RAPOPORT IN TOKYO

IN SHARP contrast to Japan's electronics companies, car and steel manufacturers, the drug companies have fared miserably over the past year.

According to the unconsolidated profit figures released over the past few days, all bnt one of the leading five pharmaceutical makers showed marked declines in earnings for the year to March.

The poor showing underlines the industry's greatest problem—one which seems almost un-Japanese. The drug industry, operating in the second largest drug market in the world, sells almost none of its prodncts abroad. While the issue of Japan's huge trade surplus rages around them, the drug companies remain an unaffecetd, bomebound industry.

For decades, the industry has been almost totally dependent on its major customer, the Japanese Government, which buys drugs for the comprehensive national health programme. In recent years, bowever, the Government, anxious to cut its soaring medical costs, bas levied a cumulative 46 per cent cut in the prices at which it buys drugs over the last four years. Tbe results are now painfully obvious.

Takeda Chemical, the largest of the five, reported a 4 per cent drop in pre-tax profits and an 11.4 per cent drop at the net level to Y18.5bn ($73.6m), on sales largely unchanged at Y474bn. Takeda said it was the first profit drop it bad suffered in the past 13 years.

"We are seeing margins crash precipitously, with many of the companies coming under pressure," said Mr John Baldwin, a drugs analyst with the Tokyo office of stockbrokers Jardine Fleming.

Tbe effects of the price cuts are most evident at the operating profit level, with Fujisawa Pharmaceutical showing the largest drop, of more than 30 per cent, to Y13.9bn on sales down 3.5 per cent to Y196.6hn. Eisai and Shinonogi showed drops at the operating level of 19.7 per cent and 14 per cent respectively.

Further, all but one of tha companies predict further profit declines in the coming year, with Fujisawa remaining the most pessimistic with a 23.5 per cent projected decline st the pre-tax level. Fujisawa had been marketing Ciba-Geigy's drugs in Japan, but the Swiss company has recently set up its own distribution network.

The only company to fare well among those in tbe recent reporting group was Daiichi Pharmaceutical. Daiichi reaped the benefits of four new drugs launched in Japan. New drugs are allowed higher prices and bigher margins than older drugs.

Despite the setbacks in prices and margins, all the companies are continuing to expsnd tbeir research and development spending, with an eye toward international expansion over the next few years.

The largest drug companies have also maximised their earnings in non-operating areas, such as securities and other investments. Sankyo, for example, managed to turn a 6.4 per cent drop in operating profits to a 2.6 per cent growth at the pre-tax level, thanks to improved investment management.

Smaller companies, however, do not have the same sort of leeway. Some of these have been breaking with tradition and linking up with Western manufacturers, a trend which is expected to gain speed in coming months. Dow Chemical, for example, recently bought a majority stake in a small Japanese drug company. Other Japanese makera are eyeing the possibilities of mergers.

Drug stocks on the Tokyo Stock Exchange, bowever, stand at bistoric highs despite the recent drop in earnings. This reflects the hope that one of the many new drugs under development in Japan will turn into a blockbuster. Indeed, breaking into overseas markets depends on new prodocts, an area in which Japan bas yet to excel. At a result, many company officials believe it may take some time before Japan's drug industry is truly international.

JAPANESE DRUG MANUFACTURERS

Parent company results (Ybn), year to March 1985 (March 1984)

	Sales	Pre-tax profits	Net profits
Takeda Chemical	475	45.10	18.48
	(478)	(47.02)	(20.85)
Sankyo	243	24.51	8.96
	(232)	(23.90)	(8.94)
Fujisawa	197	22.23	6.03
	(204)	(27.91)	(10.96)
Shionogi	185	20.46	7.38
	(177)	(23.16)	(9.54)
Eisai	135	15.85	4.87
	(135)	(18.43)	(6.02)
Daiichi	89	10.17	3.45
	(82)	(8.22)	(3.68)

Shipbuilders depressed by fall in value of orders

BY YOKO SHIBATA IN TOKYO

FOUR OF Japan's six major shipbuilders experienced setbacks in pre-tax profits for the year to March, reflecting a slump in their heavy machinery business caused by intensified competition in plant exports, as well as unprofitable shipbuilding orders.

In the current year, most expect further falls in pre-tax profits as shipbuilding continues to be affected by a fall in vessel prices.

The two exceptions wera Mitsubishi Heavy Industries (MHI), the largest company in the sector—where, as previously reported, taxable earnings jumped 64.6 per cent—and Kawasaki Heavy Industries. KHI returned to pre-tax profits of Y5.6bn ($22.3m) from the previous year's pre-tax losses of Y10.14bn, thanks to the completion of a resbspe of its motorcycle sector a year earlier than schednled.

Motorcycle sales, which hsd been hard hit by a Honda-Yamaha price war in 1982-83, showed a recovery. KHI's shipbuilding sector remained in the red but its plant export division recovered to break-even.

The reduction of borrowings by Y39bn also contributed to the earnings improvement. KHI resumed a dividend of Y3, the first since 1981-82.

JAPANESE SHIPBUILDERS

Parent company results (Ybn), year to March 1985 (March 1984)

	Sales	Pre-tax-profits	Net profits
MHI	2,000	87.25	35.94
	(1,908)	(53.01)	(26.97)
IHI	802	17.47	8.7
	(911)	(22.54)	(10.64)
KHI	715	5.60	4.85
	(703)	(−10.14)	(−6.81)
Hitachi Zozen	420	7.86	4.04
	(403)	(12.05)	(7.81)
Mitsui Engineering	330	4.00	4.56
	(297)	(8.14)	(3.62)
Sumitomo HI	304	3.77	2.51
	(296)	(4.28)	(2.70)

Union Steel in the red

By Jim Jones in Johannesburg

UNION STEEL CORPORATION (Usco), the South African iron and steelmaker, suffered a loss on steelmaking operations in the six months to March and is not optimistic about immediate prospects.

First-half turnover rose to R118.9m ($59.3m) from R106m while operating income fell to R5.9m from R9.8m.

Higher depreciation and finance charges led to a pre-tax loss of R3m against profits of R2.7m in the corresponding period of 1984.

A first-half loss of 9.98 cents a share was sustained against earnings of 9.13 cents in the same period a year ago. Earnings totalled 46.87 cents a ahare in the last financial year

Mitsubishi Motors soars

By Our Financial Staff

MITSUBISHI MOTORS of Japan has reported a near-trebling of pre-tax profits to Y20.74bn ($82.6m) for the year to March, against Y7.06bn, as foreign exchange gains totalling Y8bn added to the benefits from an increase in unit sales.

Turnover reached Y1,408bn, up from Y1,174bn. A steep increase in the tax charge, however — to Y14.1bn against Y1.5bn — meant that net earnings emerged a more modest 19.5 per cent ahead at Y6.64bn compared with Y5.56bn.

Unit sales rose 11.2 per cent to 1.16m vehicles, with exports ahead 14 per cent and domestic sales up 8 per cent.

Larger than expected loss for Sanko Steamship

BY OUR TOKYO STAFF

SANKO STEAMSHIP, Japan's deficit-ridden shipping concern, yesterday reported a far larger than expected net loss of Y83.35bn ($327m) in the year to March, bringing cumulative losses to Y168.3bn, the largest ever borne by a Japanese company.

The company had predicted its net loss at Y45bn. The pre-tax loss reached Y30.6bn from the previous year's Y55.5bn. Turnover improved from Y248.26bn to Y267.96bn.

The larger than projected net loss stemmed from allocating extraordinary debits of Y24.5bn for bad debt reserves on loans owned by Sanko's subsidiaries and guaranteed by Sanko, as well as a revaluation downward of its shareholdings in subsidiaries.

Sanko guaranteed Y9bn of a Y19bn loan for two subsidiaries. Sanko also came to the equity market in 1983 to raise about Y94bn in a share placing, most of which was taken up by subsidiaries. However, Sanko's share price plunged, and the company may still be asked to provide additional collateral for its loan guarantees.

The special provisions were made on the advice of its auditors

UK COMPANY NEWS

TV demand boosts Carlton Comms.

DEMAND for sophisticated production techniques from the television industry has boosted Carlton Communications in the first six months of the 1984-85 year, with pre-tax profits more than doubled from £2.37m to £4.86m.

The 105 per cent increase for the period to March 31 took the City by surprise, and the shares were marked up 30p to 820p. They later relaxed to close at 800p.

Carlton, a video technology and communications group which also produces financial tipsheets, increased turnover from £9.4m to £16.45m—a rise of some 75 per cent. The comparative figures have been restated to include Carlton Superhire, acquired for £6.2m a year ago. Since then the group has made two other expansionist moves, including a U.S. deal which could ultimately be worth around £23m.

Mr. Michael Green, the chairman and chief executive, said that the television division now represented the largest proportion of the group's revenues and earnings, and that demand from the industry had enhanced Carlton's position as market leader in new technology applications for broadcast television.

He is confident that the current six months will produce full year results well up to expectations.

The interim dividend is raised from an equivalent 1.46p to 1.95p on capital increased by a rights issue last December. The total last time was equivalent to 4.5p when the company reported taxable profits 58 per cent ahead at £5.54m. Carlton only gained a full listing in February, 1983.

After tax at £1.7m against £0.93m, net profits came out at £3.16m, up from £1.44m, or 12.72p per share (7.11p).

Commenting on the half year's trading, the chairman says that the new three dimensional computer imaging system and the electronic paint-box have been enthusiastically received by every sector of the TV industry.

He goes on to say that computer graphic commercials for the Halifax Building Society and Sun Alliance Insurance were produced in the period, being the first commercials totally using the Bosch FGS4000, to be shown on British TV. Complex special effects productions for Manpower Employment Services and Savacentre were also completed, the latter having taken one year to make.

The competitive mood of Fleet Street has resulted in continued work for the company with commercials for The Sun, The Times, The Financial Times and The Sunday Times.

The group's photographic and publishing division produced excellent results in the period, says Mr Green, and two new buildings in Park Royal and Tottenham will be occupied in the current six months.

● comment

The Fleet Street Letter would have done well to tip the shares of its parent, Carlton Communications, which from 400p a year rose yesterday by 10p to 800p after another set of excellent results. While some of the increase comes from its latest important acquisition, Abekas, the U.S. video company, most of the improvement has been generated internally. The bulk of the profits came from television—the company operates in the area where television and computer overlap, which is one of the highest value added parts of the market. It is involved in the increasingly sophisticated special effects ad post production, and is first in the field of technology applications for television. Profits for the full year, which are likely to include a £2m contribution from Abekas, should be about £11m, and assuming a tax rate of 35 per cent, the shares are trading on a p/e of 28. For a company which is growing internally at about 40 per cent, and has proved itself adept at making shrewd acquisitions that does not seem extortionate.

Hugin in £24m rights to help fund U.S. deal

By Charles Batchelor

Hugin Group, the unlisted manufacturer of cash registers and point of sale systems for retailers, is to pay $87m (£52m) for Sweda, the U.S. group, in an ambitious deal which will lead to a 150 per cent increase in Hugin's issued share capital.

Hugin yesterday made a one-for-one rights issue of 15m shares at 170p each to raise £23.5m after expenses. In addition Hugin is issuing 7.5m shares to Litton Industries, the U.S. defence equipment group and the present owner of Sweda, to give Litton a 20 per cent stake in Hugin's equity. A Litton director will join the Hugin board.

The shares to be issued to Litton are valued at £24m or about 248p each at current exchange rates, implying a discount in the purchase price on Sweda's stated asset value.

Finally Hugin will pay about $13m cash to meet the balance of the purchase cost.

The rights issue was underwritten by Hambros Bank. Brokers to the issue were Laing & Cruickshank.

Hugin's main shareholders, apart from Litton, are Jardine Fleming (Securities) with 7.2 per cent ahead of the new share issue; 3i (Investors in Industry) with 6.4 per cent; and Electra Investment Trust with 5 per cent.

Mr David Pope, Hugin's chief executive, will take up about 25 per cent of his rights entitlement, reducing his shareholding from 6.2 per cent to about 4 per cent. The directors held 11.4 per cent before the share issues with other staff holding about 4 per cent.

Negotiating the Sweda purchase has delayed Hugin's plans to go for a full UK Stock Market listing. It now plans to seek a listing in late 1986 or early 1987.

Hugin forecast that the Sweda purchase will leave it with a gearing of 68 per cent by the end of 1985, falling to just under 50 per cent by the end of 1986 when the benefits of the takeover start to come through.

Hugin's profits were in line with its budget in the first four months of 1985 but sales were less than expected. This resulted from the company concentrating on improving the technical specifications of its cash registers for the Italian market at the expense of sales.

Hugin does not expect to pay a dividend in the year ending December 1985 but it intends in the future to pay, on its increased capital, at least the same as the 3.5p paid in 1984.

Nadir moves to tidy up Polly Peck interests

BY MARTIN DICKSON

Polly Peck International, the fruit packing, electronics and water bottling company headed by Mr Asil Nadir, has announced agreed terms to acquire 100 per cent control of two companies in which it already has substantial interests — the quoted associate Cornell Holdings and quoted subsidiary Inter-City Investment Group.

The offers value USM-listed Cornell at about £16.2m and Inter-City, which has a full listing, at about £15m.

Polly Peck already has a 32.63 per cent stake in Cornell, which is its partner in the development of a mineral water bottling plant at Niksar, in north-west Turkey. Inter-City, in which Polly Peck clothing subsidiary Wearwell has a 50.12 per cent holding, is primarily a wholesale clothing distributor.

The merger plans were described by the company last night as "essentially a tidying up operation." Polly Peck has long aimed to take 100 per cent control of Cornell but plans to do so in 1983 were shelved when Polly Peck's share price fell sharply. Mr Nadir announced last month, at the time of the group's interim results, that negotiations were taking place with Inter-City.

For every 20 ordinary shares in Cornell, Polly Peck is offering 21 of its own. On the basis of Polly Peck's closing price last night of 269p ex-dividend, down 4½p on the day, each Cornell share is valued at 282.4p. Cornell shares closed last night at 280p, down 10p on the day.

Polly Peck is offering one of its shares for every five in Inter-City, valuing each Inter-City share at 53.8p. Inter-City shares closed last night at 52p, down 3p on the day.

The terms of the offers are being recommended by the directors of Inter-City and the independent directors at Cornell, whose chairman is Mr Nadir.

Polly Peck said the acquisition of Cornell would enhance the ownership of the Niksar plant while that of Inter-City would enhance its domestic and international development.

Cornell had pre-tax profits of £1.98m in the 26 weeks to March 1, compared to a £93,000 loss in the previous full year. Turnover was £5.43m.

Inter-City made pre-tax profits of £23,000 in the six months to February 28, against a £325,000 loss for the eight months to the end of August 1984.

Edbro shows underlying improvement

The year-end figures for the Bolton-based engineer Edbro (Holdings) showed that turnover to the end of March 1985 fell by 5.1 per cent from £21.3m to £20m, giving pre-tax profits down by £300,000 to £2.2m.

However the company says that last year's figures included a large exceptional order. Omitting that leaves turnover and profits ahead, it says.

The final payment is being increased to 4.5p, compared with a final last year of 4p, giving a total of 6.5p (8p).

The company says that with markets being static and fiercer competition, the results are encouraging.

Capital spending rose by £800,000 to £1.4m and assets per share were 154p at the year end, 10 per cent higher than the 140p showed a year previous. Despite the spending the amount of cash rose with cash holdings less borowings of £1.5m, an increase of £500,000.

Unless trading conditions change the company exports the first half of this year to show profits better than the £1m of the corresponding period in 1983/4.

Appletree is joining the USM

BY LUCY KELLAWAY

THE LATEST in the series of specialist food companies coming to the USM is Appletree, which will be joining the market later this month via a placing by Grievson Grant.

Appletree pre-packs, distributes and markets fresh vegetables in the UK. More than 80 per cent of its sales are to the multiples, with Safeway, Sainsbury and Tesco among its customers.

The company is likely to be capitalised at about £7m, which is smaller than its two major quoted competitors, Glass Glover and Whitworths.

It handles more than 70,000 tons of vegetables each year of which potatoes account for about 60 per cent. The balance is made up mainly by onions, carrots and cauliflowers. Despite the company's name, called after the house of chairman Mr David Johnson, Appletree's interest in fruit is limited to citrus fruits which it has started importing recently from Spain.

The company expects that growth will come from three main sources: diversifying into a wider range of fruits and vegetables, increasing its market share, and benefiting as the supermarkets' sales of fresh produce continue to grow.

The placing will raise more than £1m which it plans to spend largely on improving its cold storage and distribution facilities. The company says that this investment will enable it to provide a better service for its customers and ensure continued growth.

Profits for this year ending November 1985 are forecast to be £700,000 (£569,000), £390,000 having been made in the first six months.

The company attempts to minimise these risks by matching sales and purchases and by offsetting any unmatched risk in the futures markets. However as mark-ups are a fairly constant percentage of the potato price Appletree inevitably does better when potato prices are high. In the last 18 months prices per tonne have been as low as £60 and as high as £300.

Appletree is expected to come to market on a prospective price/earnings multiple of about 16. Impact day is June 18 and dealings should begin on June 25.

FKI set to keep up rapid growth

WITH THE help of acquisitions, the FKI Electricals group has pushed up its profit by £1.2m in the year ended March 31, 1985, and looks forward to the continuance of its rapid expansion.

Results for the first two months of the present year indicate a "further substantial increase in turnover," the directors report. They are continually looking for suitable acquisitions and have a "number of prospects" under consideration.

When making a rights issue towards the end of March to raise some £7m, the directors forecast the 1984-85 profit before tax at a minimum of £3.3m compared with £2.26m achieved in the previous year.

The final figure turns out to be £3.48m, and shareholders are to receive the promised final dividend of 0.275p net on the higher capital, giving a total of 0.5p, against 0.425p.

During the year the two biggest recent acquisitions — English Numbering Machines and Burndept Electronics—both made large contributions to group profits. There have been two further purchases — Metamec which was bought immediately before the year end, and Tully Engineering.

The directors explain that the increase in the present year's turnover is partly due to Burndept not being a member of the group last year. It has a long order book and since the year-end has received a further Home Office contract worth some £2m.

They believe that this year will see a further significant contribution from Burndept.

Group turnover in the past year shot up from £10.7m to £18.53m; the operating profit came to £3.24m (£2.26m) and there was a £240,000 pre-acquisition loss arising on the purchase of a subsidiary.

● comment

FKI's skills in buying up and turning around loss-making businesses paid off in spectacular fashion last year. Burndept, at £1.4m the biggest purchase to date, went from a pre-acquisition annual loss of £700,000 to a net profit of perhaps £400,000 for the nine months' contribution in these results. Moreover, FKI has yet to feel the effect of new Home Office orders won by Burndept which will increase turnover strongly in the next three years. Now, with the £7m rights issue proceeds in the bank, the group is angling for bigger fish —it pulled out at the last minute from buying Muirhead, which later went to RHP for £16m, but is currently in separate talks with quoted companies about the possible acquisition of divisions with £10m-plus in annual turnover. Given the track record, there is every sign that FKI will soon complete a deal of this size and there are good grounds for backing a management team which has done so well on the acquisition trail. The shares, after a strong re-rating over the past year, are however well up with events—up 4½p to 48p, they change hands on a multiple of 16 times.

Amalgamated Financial

A £100,000 lift in the profit on disposal of investments has boosted the results of Amalgamated Financial Investments for the year ended March 31, 1985. With turnover improving from £97,350 to £169,237, the profit before tax is up from £64,998 to £225,066.

After tax £21,884 (£16,315) the net profit was £203,182 (£48,683) earnings of 1p (0.3p) per share. The profit on investment sales totalled £132,698 (£31,681).

Amalgamated Financial Investments is controlled by Dove Holdings.

Falmouth shiprepair downturn

Pre-tax profits of Falmouth Shiprepair, the Cornwall shipyard privatised earlier this year, fell to £216,000 in the year ended March 31 1985 from £672,000 in the previous year, despite an increase in turnover to £8.1m from £7.4m.

This was disclosed yesterday in a letter to shareholders of A & P Appledore, the shipbuilding concern which is acquiring a 50 per cent stake in the Falmouth yard and manages it under an agreement with Bellway, a housebuilding company. The two companies joined together to buy the yard from British Shipbuilders.

Appledore's own interim figures were also disclosed. It had pre-tax profits of £433,800 in the six months to March 31 1985 on turnover of £1.64m, compared with £337,100 and £1.31m in the previous first half.

Appledore said the decline in Falmouth profits was due to "continued difficult trading conditions in the world shiprepair markets and also to the very considerable disruption to management and marketing efforts caused by negotiations for the disposal" of the group.

Appledore aims to improve the yard's marketing. The yard had tax losses of £3.15m at the end of March, available for offset against future trading profits.

Dunlop shareholders make things difficult for BTR

By Charles Batchelor

THE LARGE number of small shareholders in Dunlop Holdings the tyre and rubber products group, are making it difficult for BTR to complete the £101m agreed takeover bid it made in March.

With just over two weeks to go to the final June 19 closing date of the BTR offer the holders of only 84 per cent of Dunlop's ordinary shares have accepted the bid. The offer for Dunlop's preference shares has reached 97 per cent acceptances.

If BTR does not reach a 90 per cent level of acceptances it will be unable to compulsorily buy in the outstanding shares under Section 209 of the Companies Acts. It would have to go through the more protracted and complicated procedure of applying to the High Court for permission to carry out a scheme of arrangement.

"Dunlop had a very large register of shareholders. In a lot of cases they have not responded due to inertia," BTR said.

Several thousand of the more than 60,000 Dunlop shareholders have still failed to reply to reminders sent out by BTR. Many may have moved to new addresses or died.

BTR's £660m takeover of Thomas Tilling, the industrial holding group, in 1983, had also to be completed by a scheme of arrangement. Market purchases by BTR meant it was unable to obtain a 90 per cent level of acceptances from shareholders.

Caird to return to lists as a property company

BY STEFAN WAGSTYL

A. Caird and Sons, the former Scottish retailer, the shares of which were suspended last year after it ran into trouble with a diversification into fast-food distribution, is planning to return to the stock market as a property company.

Last July, the company's fast-food subsidiary, Traveller Distribution, went into liquidation, and the group sold its retail trading business, retaining the freehold on the properties.

Caird plans to buy, for £455,000, a portfolio of seven Scottish shop properties from Mackays Stores, a private company.

It will be funded by £155,000 in cash and the issue of 1m Caird shares at 30p, increasing the group's capital by 25 per cent.

The shares are being offered to shareholders on a one-for-four basis, underwritten by the English Association Trust.

The group made an attributable loss of £65,000 for the year to the end of January, when it was reorganising its affairs following the liquidation of Travellers. In the previous year the loss had been £1.2m, including £1m in extraordinary charges, mainly provisions for the cost of closing Traveller.

Following the property acquisitions, the group expects to have properties worth £1.4m, yielding a gross rent of £160,000 a year. It has also made a £105,000 profit on a property development deal in the present year.

To help develop its property interests, Caird has appointed Mr Donal du Parc Braham, a former senior partner of estate agent Edward Erdman, as a non-executive director.

If the plans are approved at a shareholders' meeting on June 24, the company's shares, suspended at 29p, are to be relisted the following day.

More O'Ferrall to buy balance of Adshel stake

More O'Ferrall, the outdoor advertising group, is buying from Reed International the 50 per cent of Adshel, a marketer of advertising space on bus shelters, which it does not already own.

The purchase price is £3m, funded by a vendor placing of 4.4m More O'Ferrall shares. Adshel's £3m debt to Reed will also be discharged on completion.

The sale is one of a series by Reed as part of a policy to focus on a narrower range of activities. This week, it announced that its building products division was for sale.

More O'Ferrall's annual report disclosed that it made payments totalling £85,000 last year to two retiring directors, Mr George Cann and Lady Elizabeth More O'Ferrall. It also made an £18,000 payment for termination of contract.

Selincourt bid extended

Stormgard, the "shell" company through which Mrs Jennifer d'Abo has launched a £20m take-over bid for Selincourt, the fashionware and fabrics group, yesterday extended its offer after gaining acceptances from the holders of 26.45 per cent of Selincourt's shares.

Stormgard, which owned no Selincourt shares before making its bid, has received acceptances from the holders of 13.78m ordinary shares and 82,333 preference shares or 32.93 per cent of the preference equity.

It has extended its offer of 13 of its own shares for every 19 Selincourt and the cash alternative of 26p per share, underwritten by Morgan Grenfell, to June 14.

Anglo-American offsets effects of SA recession

RECORD earnings have been achieved by Anglo American Corporation of South Africa in the year to March 31 1985. At net attributable level they have climbed to R880.4m (£334m), or 386 cents per share, before extraordinary items, from R810.1m a year ago.

Anglo is raising its final dividend to 100 cents (39p), making a total for the year of 135 cents against 120 cents.

On the latest occasion there is an extraordinary debit of R63.3m to be deducted from the net attributable profit. It reflects losses within the group, stemming from the interests in Johnson Matthey, Capa Industries and the closure of the Engelhard group's metal refining operations.

A year ago there was an extraordinary credit of R64.5m which was largely attributable to the sale by the Bermuda-registered Minerals and Resources Corporation (Minorco) of part of its interest in Philbro-Salomon.

Anglo's good performance owes much to the strength of the group's diversification. Covering virtually every aspect of mining together with important financial interests it has outweighed a less satisfactory performance by the industrial division which was hit by the South African recession.

Income, in terms of the weak South African rand, has clearly benefitted from sales of dollar-priced exports such as gold, coal, platinum and manganese.

The group has also seen a useful increase in interest income, reflecting South Africa's high lending rates, while its sharedealing activities have taken advantage of a strong market on the Johannesburg Stock Exchange.

Anglo's decision to raise the final dividend suggests that the group is reasonably confident that its diversification will provide a further increase in earnings this year.

Meanwhile, the Minorco off-shoot announces hat it has made the previously announced reduction in the holding of Philbro-Salomon to 14.5 per cent.

The 10m shares of Philbro-Salomon were sold at a price of $41.50 per share and the $402m net proceeds have been used to clear Minorco's $30m debt, the rest being now placed in the short term money market.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corre-sponding div.	Total for year	Total last year
Airflow Streamlines	0.75	July 23	0.75	1	1
Carlton Comm. int.	1.95†	July 31	1.46*	—	4.5*
FKI Electricals	0.28†	Aug 19	0.2*	0.5	0.39*
TR Natural	4	July 26	4	7.5	7.5
J. W. Wassall	1	July 4	1	1	1

* Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock.

UK COMPANY NEWS

Terry Povey on Henderson's share offer for Cartwright

Stalemate, but door still open

Henderson Group's takeover bid for R. Cartwright (Holdings) has reached an impasse.

The all-share offer is seriously below the rating given the target by the market and faced with paying a lot more Henderson has chosen to bide its time, hoping that the nerves of the other players will break and the share price drop back.

The bid — five Henderson shares for every nine of Cartwright—was launched on April 15. So far there has been no change in these terms and both sides have concentrated on presenting their cases to shareholders.

The central argument put by Henderson's is that the two companies are engaged in sufficiently similar products and markets — doors, windows, partitioning, locks and security devices sold through builders' merchants or DIY shops — that the takeover has "clear and strong industrial logic" behind it.

In addition, Henderson claims a record of sustained growth and to be able to offer a broader domestic and international network through which the enlarged group's products could be distributed.

Mr Bob Teare, the Cartwright chairman, rejects these arguments and is seeking shareholders' support for the company to remain independent.

He describes the bid as "opportunist," saying that it was made following the publication of the admittedly poor 1984 results at the end of March — were an aberration on an otherwise fairly successful record of results which Cartwright claims achievement.

Henderson has its origins in P. C. Henderson, a more than 50 year old Romford-based company making gear for sliding doors which went public in 1960.

In the 1960s it began to expand overseas establishing a factory in New Zealand, setting up marketing operations in both the U.S. and various European countries. By the early 1970s it had shifted its emphasis from gears to garage doors and changed its name to P. C. Henderson Group. In the late 1970s came further product diversification — industrial doors and partitioning and the first steps were made into the security area through the acquisition of Pitts Security Gates.

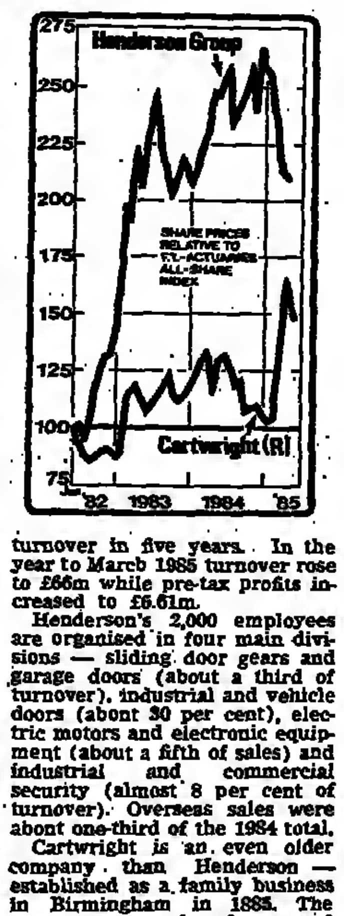
By the end of 1981 the present management team was in place — Mr Pat Gaynor (who became chairman in 1971), Mr Norman Parker, who became chief executive, and Mr Tim Davis, finance director.

Henderson was held back in 1980-81 by the depressed state of the building industry but by the following year the policy of diversification had begun to start paying off.

In early 1982 the company bought Normand Electrical, the loss-making electric motor and industrial power transmission company for almost £5m.

In February 1983 Henderson paid £3.7m cash for Continental Instruments Corporation of New York — a company manufacturing commercial and industrial security systems, including computerised card access. This was a technological leap forward and placed the U.S. at the head of the company's growing list of overseas units; the others are in New Zealand, South Africa, Australia, Norway, Holland and Spain.

The turning round of Normand plus the U.S. acquisition enabled Henderson to almost double



turnover in five years. In the year to March 1985 turnover rose to £66m while pre-tax profits increased to £6.61m.

Henderson's 2,000 employees are organised in four main divisions — sliding door gears and garage doors (about a third of turnover), industrial and vehicle doors (about 20 per cent), electric motors and electronic equipment (about a fifth of sales) and industrial and commercial security (almost 8 per cent of turnover). Overseas sales were about one-third of the 1984 total.

Cartwright is an even older company than Henderson — established as a family business in Birmingham in 1868. The group was owned and managed by the Cartwright family for three generations and made door, window and cabinet fittings for the building industry under the trade name Fleet.

The company went public in 1967 under chairman Mr J. C. Northam. At the time pre-tax profits were £125,000 on a turnover of £1.1m.

In 1972 Cartwright had its first serious brush with a predator when Newman Tonks approached the board with a view to getting an agreed bid accepted. The talks were called off, although the memory of the approach still lingers on among the longer serving executives. The bidder held on to its 24 per cent stake for several years, long enough to keep everyone at the company worried.

In 1982 Cartwright began to expand its product range through architectural fittings. After recovering from the jitters in the industry in the early 1980s, the company acquired Evered Security Products to add to its locks and pressings division.

Through 1983 the recovery continued only to be halted last year when pre-tax profits dropped to £1.46m from £1.62m on a turnover up to £13.64m from £12.92m.

In October 1984 Mr Teare achieved what was clearly a long-time goal and became chairman of Cartwright following the retirement of Mr Northam.

Cartwright today manufactures and distributes door and window furniture, aluminium die castings, architectural and security locks, partitioning and storage equipment, trade injection mouldings and does some metal polishing and finishing. Overseas sales are negligible.

According to the Henderson offer document, the combined net assets of the enlarged group would be £23.44m—of which Cartwright would contribute some 30 per cent. Mr Teare is adamant that on an asset per share or dividend basis the offer from Henderson is too little.

Certainly the movement in the Cartwright share price since a Press leak in mid-April has made the bid look low. Even with the target's shares dropping back to 165p (from an all time high of 180p recently) there is still a 35p difference. Henderson make the point that prior to the bid Cartwright's shares had never got above 130p—and that the sector is not a glamour one in which large premiums would be paid for a name.

Mr Teare's wish to go on running the company is understandable. He makes the point, however, that: "Although I have had only one year as chairman the rejection of the Henderson offer is no personal ego trip."

Mr Teare is also quick to deny that he has been seeking assistance with the defence: "I am not interested in any knights, whether white, black, blue or any other colour." The mention of Newman Tonks in this connection is, given the history, more than a little ironic and almost certainly untrue.

But Henderson seem in no mood to abandon the bid. However, to win it will certainly have to be prepared to pay more and maybe introduce a cash alternative.

The Cartwright share register is a very open one, dominated by institutions rather than family holdings and these will be looking for a good return rather than aiming to stay with the target just out of loyalty.

Cartwright in a letter to shareholders yesterday once again urged rejection of the bid. On the basis of a 50 per cent rise in trading profits compared with the same period in 1984 the company is forecasting record pre-tax profits for 1985 and growth in earnings per share. It has also announced plans to increase the total dividend to 7.75p from 6.5p in 1984. Henderson are this week expected to announce the purchase of a Swiss security company to add to its growing involvement in this sector. On yesterday's closing price of 240p for Henderson, the offer values Cartwright at just under £9m. Cartwright's shares closed up 5p at 165p following the profits forecast.

Customer delay restricts Airflow to same profit

A DELAY to a major programme in the body engineering section has hit the Airflow Streamlines group and almost the whole of the first half profit gain has been wiped out.

The second half profit fell by £77,000, to leave the total for the year ended February 28 1985 at £624,034, compared with £620,039. The dividend is again 1p net, the final being an unchanged 0.75p.

In the manufacturing division—metal-pressings-and-assemblies—turnover rose from £8.94m to £10.42m and the profit from £335,700 to £362,615. In the body engineering section, extensive resources were allocated to a major programme which was subsequently delayed by the customer for a considerable period, and this severely affected the results, the directors explain. However, a high level of output has been retained to meet the demands of an increasing number of customers.

In the second half an improvement was achieved in demand and performance of the production section, despite significant preparation costs for a major new product line. This will begin to come into operation towards the end of this year.

The specialist motor component painting facility of Pegasus Phosprime achieved a satisfactory result.

In the motor division (Ford main dealership) sales fell from £17m to £16.3m and profits from £284,278 to £261,221. Market conditions remained very competitive and sales of and margins on new vehicles were depressed.

Capital expenditure in both divisions continued at a high level to replace and update plant and machinery; and further expenditure is planned for the current year.

Work started on the building of new offices for the manufacturing division. On the motor side the policy of customers hiring vehicles on contract directly from finance companies reduced the division's investment in vehicles.

Tax takes £220,891 (£214,787) to leave the net profit at £403,143 (£405,251), equal to 5.53p (5.56p) per share basic and to 4.12p (4.14), fully diluted. An amount of £23,833 (£99,812) equivalent to additional depreciation on revalued assets has been taken from reserves, while last year there was a £413,883 debit adjustment to deferred tax account.

On prospects, the directors say that customer demand continues to rise in certain sections of the manufacturing division, and the new product line is coming on stream. Sales in the motor division are expected to continue at a high level with the support of the introduction of new and improved models by Ford.

Hilden purchase

Hilden Manufacturing, the Oswaldtwistle textile manufacturer, has arranged to acquire the bleaching, dyeing and finishing division, and the machinery and goodwill of the contract sheeting business of Highams. Hilden with the support of its bankers, is financing the major part of the acquisition. It has always been assisted with a special grant from the Department of Trade and Industry.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Gieves, Hanson Trust, McCorquodale, Norcros, PLM.

Finals:—Atkins Brothers, (Hosiery), Chapman Industries, De La Rue, Holden Hydroman, Morgan Communications, New Throgmorton Trust (1983), Plysu, Time Products, UKC International.

FUTURE DATES

Interims:—	
Canvermoor	June 8
Horne (Robert)	June 19
Marley	Aug 27
Finals:—	
Amersham International	June 10
British Steam Specialities	June 13
Butterfield-Harvey	June 13
Evans of Leeds	July 9
Geevor Tin Mines	June 11
Mitchell Somers	June 20
Parkdale	June 11
Prop. & Reversionary Invests.	June 10
Standard Fireworks	June 11
Tesco	June 12
Textured Jersey	June 25
Whittington Engineering	June 20

LADBROKE INDEX

1,006-1,010 (+2)

Based on FT Index

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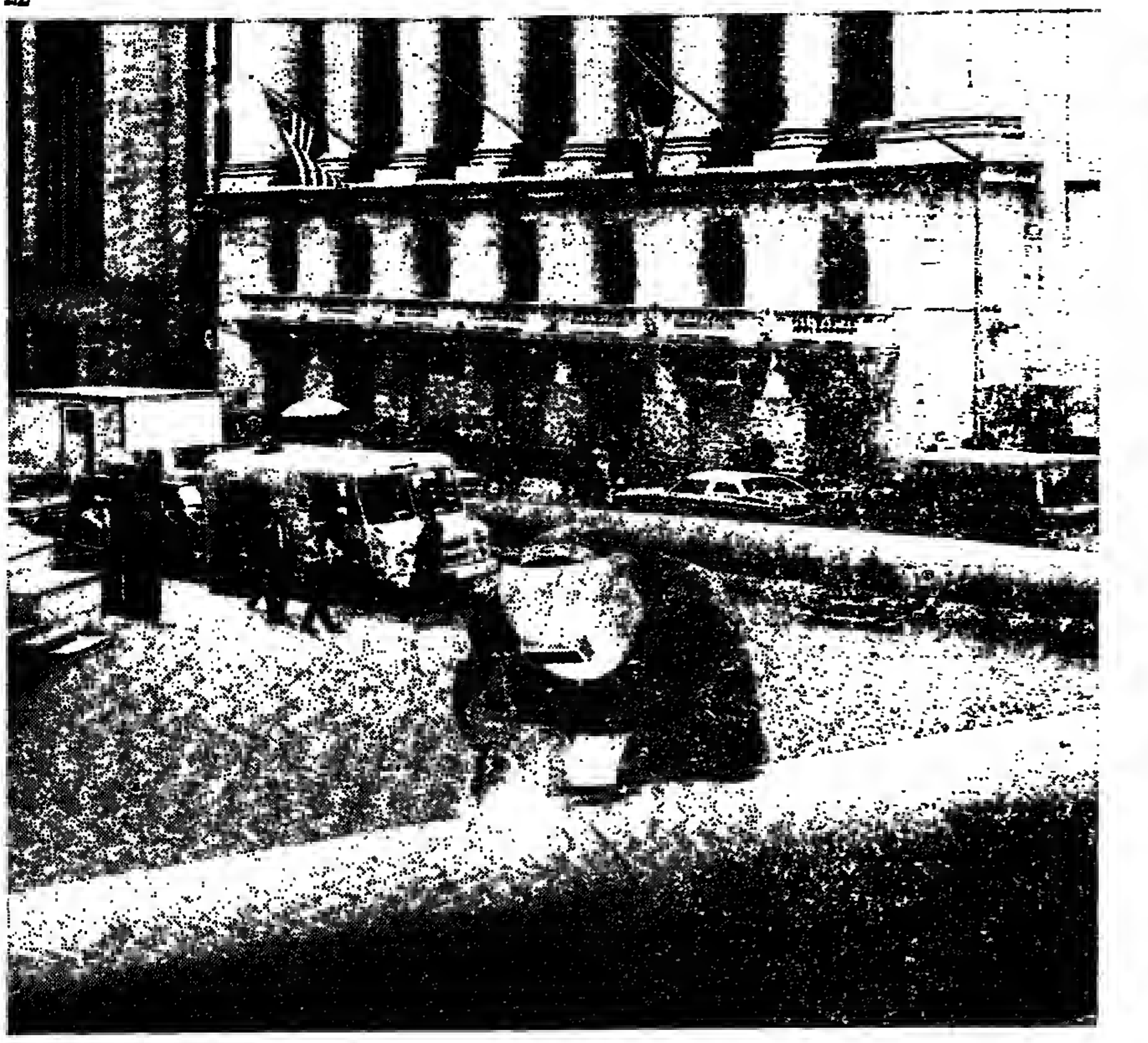


UK COMPANY NEWS

Wassall profit recovery continues

THE recovery continues at the Midlands-based footwear retailer, J. W. Wassall, with record pre-tax profits for the year to January 26, 1985.

On turnover up by 13 per cent to £3.01m pre-tax, profits were £58,000, compared with the previous year's total of £52,000. That was struck after a deficit on the sale of properties of £3,000, compared with a surplus of £13,000 in 1983/4.

As with the previous year, most of the profits were made in the second half. After six months, on turnover of £1.31m, pre-tax profits were only £11,747.

After tax of £6,000 (£6,000) earnings per 5p share were 7.57p, a rise of 9.03 per cent on the previous 6.94.

A dividend of 1p is being paid, the same as last year.

All of the 500,000 deferred ordinary shares of 5p will be converted into 500,000 ordinary shares of 5p each on July 5.

Fishermen's Petroleum

Fishermen's Petroleum Company says that Kerr-McGee Oil (UK), the operator for block 12/29, will be drilling a second exploratory well on the block this month. The results will not be known until November.

The costs of the well are estimated at the moment to be between £7m and £9.5m; but the company has a carry agreement with Kerr-McGee of 3 per cent of the said costs, the company's percentage interest in the licence for the block.

Fishermen's results for the year 1984 shows the loss has been reduced from £33,321 to £4,116, before tax of £1,204 (£1,853). Loss per share is 1.7p (11.29p).

Murray Growth

In their interim report the directors of Murray Growth Trust are forecasting an increase in earnings per share from 1.4p to 1.6p over the full year to end September 30 1985.

By the end of March equity shareholders' interim had risen to £161.5m, compared with £148.7m six months earlier, and the net asset value stood at 120.2p per share, against 10.7p.

In the half year ended March 31 1985 the company produced net revenue of £1.18m, compared with £723,000, after tax £762,000 (£511,000). Dividends and interest totalled nearly £3.7m (£2.87m).

MINING NEWS

Consgold expands Kloof development at cost of £390m

A BIG new deep level gold mine costing about R1bn (£390m) is to be developed in South Africa's West Rand by the Consolidated Gold Fields group as an extension of its high-grade Kloof mine. The new area, Leeudoorn, contains mineable ore reserves of approximately 39m tonnes, grading an average 10 grammes gold per tonne.

The decision follows a five-year exploratory drilling programme by the mining house Gold Fields of South Africa (GFSA) in the Bank Break area, which lies between Kloof, its near neighbour Driefontein Consolidated and the town of Fochville on the West Wits line, *reports Jim Jones in Johannesburg.*

Mr Robin Plumbridge, chairman of GFSA, which manages Kloof, said yesterday that the new area, which forms a chevron to the south and west of Kloof, contains an estimated 36m tonnes of Ventersdorp Contact Reef (VCR) and 3m tonnes of other gold-bearing reefs lying at depths between 1,800 metres and 4,000 metres.

Gold recovery will average about 6.5 grams per tonne. Mr Plumbridge estimates, which compares with the existing mine's average of 15 grams per tonne in the first quarter of this year. That is likely to disappoint Johannesburg brokers, who had been expecting *in situ grades of 12 grams* and recoveries of between eight and 10 grams.

The plan is to establish two distinct mining operations under the same corporate umbrella.

The terms of the proposals are that Kloof will issue 35,000 new shares to acquire mineral rights over 1,309 hectares to add to its existing 4,424 hectare property. The mineral rights are largely owned by GESA or its associates, while 2.9 per cent is owned by the mining house Johannesburg Consolidated Investment.

The mineral rights vendors will, in addition, subscribe for R119.9m *of 18 per cent convert*ible debentures, thereby providing sufficient cash to finance the estimated after-tax cost of R453m in current terms needed to bring the new venture to profitable operation.

Mr Plumbridge expects this to happen late in 1992, when mill throughput reaches a *monthly* 100,000 tonnes. Milling is planned to rise to an interim level of 120,000 tones a month by 1993 and to 180,000 tonens by 2004.

The debentures will be automatically converted into 2,725m ordinary shares on July 1 in the year following the attainment of a milling rate of 100,000 tonnes per month.

The additional cost of raising *production to 180,000 tonnes,* will be about A550m in 1985 terms, and will be financed from profits.

The establishment of mining operations in the Leeudorn section will mean the sinking of two main shafts and one ventilation shaft from surface. In addition, two sub-vertical shafts and two tertiary shafts will be needed to give access to ore at a maximum depth of 4,000 *metres. In present-day* terms mining costs for the new section are expected to average R72 per tonne milled.

Concurrently with the expansion proposals, Kloof plans to sub-divide its shares four-for-one. If this is approved by shareholders, the number of shares issued to the Leendoorn mineral rights holders will be increased proportionately.

TR Natural results 'are better than expected'

TR Natural Resources Investment Trust had a year which was significantly better than the directors expected. Despite falls by most of the natural resource sectors throughout the world, total income for the year to the end of March remained almost unchanged.

The directors add that the success of efforts to limit the effects of adverse conditions is shown in the marginal fall of 2.8 per cent in the asset value of the portfolio, which allowed for the realised and unrealised losses of £1.28m incurred by dollar currency hedges, which were taken as a protective measure.

Net asset value came out at 318.37p, against the previous year's 327.63p.

Total income was £4.5m (£4.57m) which, after expenses and interest payable of £518,000 (£544,000) and higher tax of £1.61m (£1.46m), left net revenue at £2.38m (£2.56m).

Earnings per share were 7.87p, a fall of 7.19 per cent on the previous year's 8.48p. It is intended to hold the final payment at 4p net, making a same-again total of 7.5p.

The UK and U.S. remain the most important areas for investments, followed by Canada, Australia and South Africa. Investments are spread across the sectors, with energy taking almost a third, followed by industrial metals and minerals, precious metals and minerals, and forest products and commodities.

Wettern Bros.

Following the elimination of accumulated losses, Wettern Brothers, construction materials group, is returning to the dividend list—after a four-year absence—with a payment of 1p net.

Pre-tax profits for 1984 were little changed at £94,000 (£90,000), while turnover was lower at £2.49m (£5.44m) due to the cessation of the Nottingham builders' merchants activities.

Earnings per 25p share were 5p (5.2p). Tax took £8,000 (nil) and extraordinary debits came to £33,000 (£42,000). Group borrowings have virtually been eliminated.

John Carr (Doncaster)

John Carr (Doncaster) has confirmed the figures for the first half ending March 31, 1985 issued when details were announced of the £84.6m agreed bid for the company from Rugby Portland Cement. On turnover of £20.7m (£22.6m), pre-tax profits were £3.01m (£4.22m).

Under the terms of the bid Rugby will receive all Carr dividends in future and no interim will be declared unless the offer fails to become unconditional.

Amcoal chief forecasts a further improvement

A FURTHER improvement in earnings in the year to March 1986 is forecast for South Africa's big coal producer, Anglo American Coal Corporation (Amcoal), by Mr Graham Boustred, the chairman.

In the past 12 months the group lifted sales by 7 per cent to 36.6m tonnes of coal and coke thanks to an increase in the profitable export market via the 11.7m tonnes channelled through the Richards Bay export terminal north of Durban.

Sales to the domestic market were unchanged, but Amcoal raised its earnings by 42 per cent to R155.2m (£60.6m) after a pause in the previous year.

Helped by the weakness of the South African rand against the U.S. dollar—in which coal exports are priced—Amcoal would have done even better but for the policy of selling forward a portion of its dollar revenues against a background of uncertainty in world currency markets.

In his annual report Mr Boustred points to South Africa's favourable competitive position in the export market for coal and feels that the country should do better than other exporters.

He warns, however, that an eye must be kept on the Australians—helped as they are, by the weakness of that country's currency—and on the growing challenge of Colombia's new US$3bn (£2.17bn) El Cerrejon mine plus the effects of countries, such as Denmark, which have decided not to buy South African coal on political grounds.

Nonetheless, Mr Boustred expects Amcoal to again increase its export sales in the current year and to sell more on the South African market.

Meanwhile, the company's R2.5bn expansion programme continues to be pursued. This should not preclude a further dividend increase this year and the shares, yielding just over 4 per cent, seem reasonably priced by South African standards.

Carless Capel

Carless, Capel and Leonard, the independent oil company, will pay about £1.35m to buy the retail petrol business of Anglo Petroleum. Some £600,000 in cash and the balance met by the issue of 455,550 CCL shares. These have been placed on behalf of the vendors.

TECHNOLOGY

EDITED BY ALAN CANE

Lear Fan collapse fails to ground the carbon fibre industry

BY ROB GOLDING

DEMAND FOR carbon fibre in Britain is set to increase this year despite the failure of one of its most visible and original products—the Lear Fan jet.

More and more applications are being found for the high-strength, low-weight material and the industry believes that the trend will continue whethar or not the Belfast aircraft-maker survives receivership.

Carbon fibre—created by passing a thread such as Courtelle through curing and carbonising furnaces—has always been ideal for plane-making.

Once woven or laid up into a mat and bonded in resin it can become stronger than titanium and lighter than aluminium.

Even though the process is expensive, the cost has deterred the aerospace industry less than others.

> 'Carbon fibre is moving from promise to profit'

But it was aerospace that postponed its development. When Rolls-Royce went into receivership in 1971 its problems were blamed on tha cost of attempting te use carbon fibre for the fan blades in the RB211 engine.

Carbon fibre became an untouchebla and its development set back ten years, according to Mr Colin Hill, chairman of RK Technology, of Inverness, Britain's second largest producer.

"The downfall of Lear Fan will not even cause a ripplo in comparison with the devastation of the Rolls collapse," be said. "A few good developments on everyday stuff can trounce aerospace."

Indeed Dunlop will put more carbon fibre into tennis rackets this year than would ever have been needed for the high-tech, rear-engined Lear Fan.

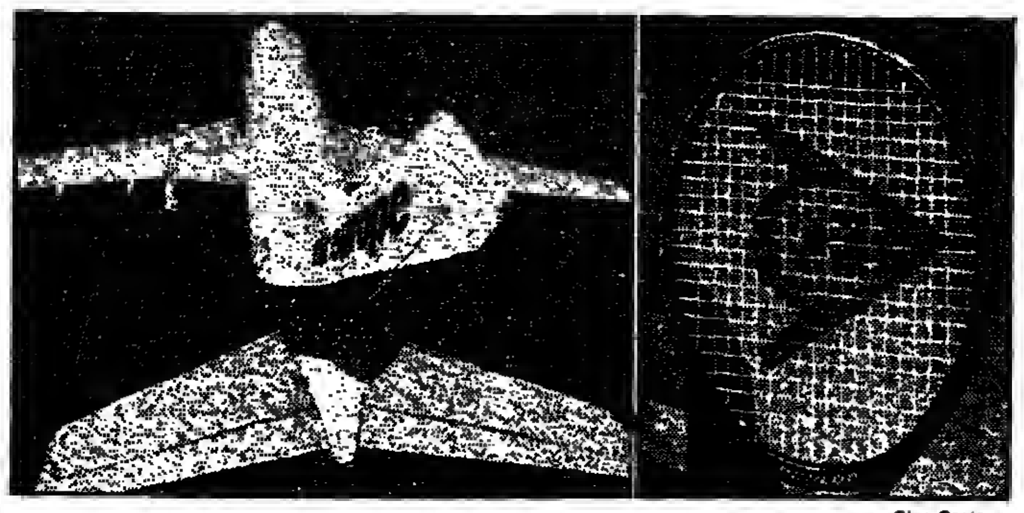
And it has been estimated that if Austin Rover—which, like most car companies has made thorough appraisals of the weight-saving advantages of carbon fibre—was to introduce just half a pound of the material into each car, the entire world capacity of 3,500 tonnes a year would be exhausted.

The view that carbon fibre is moving from the category of promise to one of profit is lent credibility by the recent machinations of multinational companies.

ICI's purchase in tha U.S. late last year of the Beatrice Chemicals group for $750m—about $600m over asset value—was thought to be prompted by great interest in tha carbon fibre subsidiary, Fiberite.

And in Germany last month, BASF paid $127m for Cellanese Carbon Fibre.

Britain is the centre of fibre production for Europe, although large French and German plants are both promised. Hysol Grafil in Coventry—the Courtaulds and Dexter joint subsidiary—and RK Technology are the two big producers.



Dunlop tennis racquets and the tailplane of the Boeing 737-200 use carbon fibre — Glyn Genin

RK has just started supplying fibre to Ciba Geigy which has e Ford America contract to make carbon fibre tubing for vans with long prop shafts.

These vehicles usually need a two-piece prop shaft with all the associeted joints, brackets and hangers. But carbon fibre can be used in one piece, with attractive weight and cost savings.

That business is worth 10 tonnes a year—nearly 10 per cent of RK's output—and demand went up three times in the short period tha contract was under negotiation.

Meanwhile Hysol Grafil believes demand for carbon fibre may already be outstripping supply.

"Perhaps we should say that demand and supply are about in equilibrium, with the emphasis on the demand side," said a cautious finance director, Mr Bob Wehner.

Price movement tends to suggest that the boot is in the supplier's locker if not yet on his foot. Prices have risen by 7 per cent this year.

Hysol Grafil's chief executive, Mr Derek Twogood, last year tried to form a consortium of companies interested in the material and to get government funding for e demonstration project in the West Midlands.

But despite a strong approach to the industry, there were no takers. The technology is still so young that producers and processors are jealous of their skills.

Tha concern is that Britain is losing its initiative in the development of the material because traditional engineering companies will not take the difficult first step away from metal.

There is every reason why they should. Several recent projects have shown the potential and versatility of carbon fibre.

Futair of Poole in Dorset has made aircraft seat frames that are 30 per cent lighter than metal. Both Shorts and British Aerospace are inspecting in detail tha claim that the annual fuel saving on a Boeing 747 could be £100,000.

New beat-resistant resin, Bismaleimide, is being used by McDonnell Douglas in producing various carbon fibre parts for the new Harrier II. Bismaleimide resists higher temperatures than the epoxy it replaces, and gives the carbon fibre even greater strength.

About a quarter of the Harrier is made from carbon fibre and by next year the requirement for the better resin will treble.

The first all-carbon-fibre load-bearing structure on e commercial airliner went into service at the end of last year. Boeing delivered five 737-200 twin-jet aircraft with the horizontal tail made of carbon fibre layers. The tail weighs 22 per cent less than aluminium and has fewer parts.

Work being done by the BP subsidiary, Bristol Composite Materials Engineering has found thet strength depends on the orientation of tha fibres as well as the type of fibre and resin.

A carbon fibre tube weighing only e coupla of pounds has been shown capable of absorbing all the energy of a family car crashing at 30 mph.

Tubes of carbon fibre 1 ft long and 4 ins in diameter incorporated into undercarriage structures as load-bearing struts, have been found to have ten times the energy-absorbing capability of steel.

What happens next is anybody's guess. Carbon fibre structures are ideally made on carbon fibre tools so that the expansions and contractions match. And in the past few months, the carbon fibre industry has been called up to meet a lot of tooling orders.

Far from barming the carbon fibre industry — the Lear Fan experience may ectually help. Engineers bad trouble with development of the plane beceuse they had to write the standards book as they went along. But the material itself gave very little trouble.

Two years ago, the lower skin

> 'Concern that Britain is losing its initiative'

of a wing buckled because it was overstressed. Last year, two brackets broke but they were metal. And there was failure of a joint between carbon fibre sections but it was the resin glue not the fibre that gave way.

For e small company there was just too much to learn too fast. The meterial however remains a promising prospect and the receivership of Lear Fan and tha capacity which that is likely to release may even provide an incentive for carbon fibre to eccelerate its spread into new areas.

Enter the 'see-through' fruit pie

Peter Marsh on novel pastry-making machinery

BRITISH FOOD manufacturers are about to be offered a set of automatic machinery that turns out what to UK consumers is a relativo novelty—"see through" fruit and meat pies.

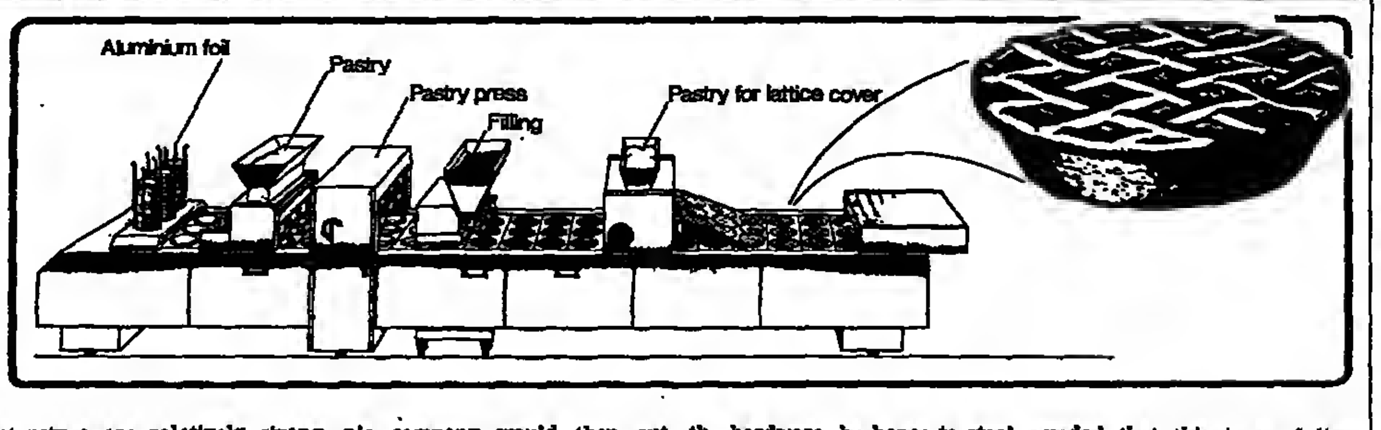
People in other parts of Europe have been accustomed for years to pies topped by a criss-cross pastry lattice so that they can view the contents before munching begins.

In Switzerland, the maker of one popular pie goes so far as to put in the upper surface of its products a series of gelatine "windows" that offer the consumer perfect visibility of what is inside.

In contrast, British food manufacturers generally opt for what, in the jargon of pie engineering, is known as the "floating lid" — a solid piece of pastry that is made to sit on top of a fruit or meat filling in the final stages of production.

European Process Plant, a company in Banstead, Surrey, is hoping to tempt UK pia companies to set up production lines for "see through" products using a set of machines made by Rijkaart of Asperen, the Netherlands.

Rijkaart, a pasty-machinery specialist, makes a range of hardware that turn out several thousand pies an hour in an automated fashion. A key feature is one of tha latest mechanisms (which sell for between £50,000 and £250,000 depending on their capacity and sophistication) is hardware that pokes holes in a crust of pastry to provide a lattice arrangement.



In the machinery, dough is squirted into foil containers and a fruit or meat filling added — an entirely conventional way of operating. In a subsequent stage, a high-yeast dough flows from a vat to form the lid (see diagram). During the flow, a series of protrusions on a rotating component fashions gaps in the dough as it settles into position.

Due to the fermenting action of the yeast, the dough has a relatively light, open structure and a fair amount of tensile strength. As a result, the strands that form the lattice structure are relatively strong and not prone to collapse.

In the traditional way to produca this kind of "eee through" framework in the top of British pies, a food manufacturer would make the lid out of a relatively weak, fatty dough that does not contain yeast — the sort from which biscuits are made. Tha pie company would then cut holes in the dough rather than through a moulding action seen in the Dutch process.

Mr Colin Hall, joint managing directer of European Process Plant, says be hopes to sell the new equipment te leading pie manufacturers such as Ross, Birds Eye and Fletcher. With the hardware, he hopes to steal a march on rival pie-equipment manufacturers such as Assa, Baker Perkins and Crypto Peerless.

Will the British pie-buying public take to the new kind of see-through product? Mr Hall says he hopes they can be persuaded that this type of item offers a different kind of taste.

As the pie enters the mouth, the teeth meet less resistance before breaking open the lid. The pie-eater thus experiences the flavour of the filling a fraction of a second earlier than with a traditional product.

A clean-up for oil boilers

A DEVICE to prevent the build-up of oily deposits in boilers is available from Moulsford Technical Products of Moulsford, Oxfordshire.

The Fluid Dial magnetic oil cleaner is fitted in the fuel line of an oil-burning boiler. It subjects the fluid to a magnetic field which changes the physical nature of the oil molecules.

As a result, the contaminants normally left on the boiler's surface change from a tar-like substance that is difficult to remove to a light deposit that is easily brushed away.

According to the company, the change in characteristics increases the fuel efficiency of boilers and reduces the need to open up boilers for cleaning. More on 0491 651546.

Computer to control pallets

THE Hoskyns Group, a London computer company, is developing an electronic system to keep track of the millions of pallets used for delivering manufactured goods.

The £750,000 system will be developed in conjunction with GKN Chep, which hires out 5m pallets throughout Britain.

A typewriter with memory

ERICSSON Information Systems of London is to sell a typewriter with a wide range of word processing functions. It can recall blocks of text from memory and can carry out up to 99 repeat prints.

It has a 19,000 character memory and will cost £1,499.

THE MANAGEMENT PAGE: Small business

EDITED BY CHRISTOPHER LORENZ

Equity investment

West Germany aims to widen opportunities

BY JONATHAN CARR IN FRANKFURT

THE West German Government has produced a new scheme to try to channel more capital to small- and medium-sized businesses. A bill with this aim passed through the cabinet in March and is now going through parliament. But it already seems doubtful whether the measure with the daunting title "Gesetz neber Unternehmensbeteiligungsgesellschaften" — literally, law on companies with stakes in (small-and medium-sized) enterprises—will have the intended result.

Taking a leaf out of U.S. and UK books, the measure will allow investing companies to be created which will take (generally minority) stakes in a spread of small- and medium-sized enterprises, and themselves issue shares on the stock exchange.

In this way the companies could in principle act as a link between those companies seeking capital and investors unwilling to plough funds directly into smaller businesses of which they know very little. For many years the U.S.—through its Small Business Investment Companies — and more recently the UK, through quoted venture capital funds, have developed considerable experience of this type of investment.

The government's measure is another example of moves aimed ot strengthening the capital base of German companies in general and smaller ones in particular.

Bundesbank figures show that companies' equity ratios (equity as a proportion of total assets) have dropped from an average 30 per cent in the mid-1960s to under 20 per cent in the early 1980s. In this period high interest rates and the recession which followed the second oil crisis cruelly exposed this weakness, destroying companies with too puny a buffer of capital to absorb the shocks.

Moreover, the shortage of equity funds is also held to be a factor which tends to discourage research, innovation and faster growth on which the jobs of the future depend.

Among other recent initiatives aimed at broadening the corporate equity base in Germany have been the increase in the number of companies "going public" on the stock exchange and the rise of venture capital enterprises with funds aimed, above all, at small high-technology business.

The government has helped with (at least some) tax concessions for industry, special aid programmes, a streamlined research policy and moves to encourage a more flexible stock exchange structure.

But what has been missing so far is a tax-neutral instrument through which the general public will be encouraged to invest in smaller (but, it is hoped, steadily growing and profitable) businesses. Investment funds exist, but they channel resources mainly to the bigger companies. The little ones, which most need the capital injection, and which *cannot even consider a stock* market listing for years, do not get much of a look in.

This is the gap which the new and highly detailed bill (it covers 33 pages of typescript) is intended to fill. Doubts about its effectiveness have already emerged, though, because the *bill contains provisions which* look likely to undermine the main aim.

For example, the bill stipulates that the investing companies must have a minimum capital of DM 2m (£0.5m); that in principle they should hold stakes in at least 10 different enterprises; and that after eight years at the latest they must have offered at least 75 per cent of their capital to the public. The Government defends these rules with the arguments that the initial capital must be a big enough hurdle to deter "fly by night" operators, and that the risks must be spread through investment in a relatively large number of businesses.

In fact the DM 2m figure is of the charges made against because if stakes are to be taken in "at least" 10 companies liable to show strong growth over years, much bigger sums are felt certain to be needed. This implies that it will be big institutional investors—above all the banks—which will be in a position to set up and finance the new concerns.

It is more than likely that tha banks will then use the new instrument to dispose of some of the stakes they already hold in smaller companies. That would be legitimate, but hardly in line with the key aim of bringing *extra* funds to o business sector starved of capital so far.

(This criticism is reminiscent of hte charges made against some of *Britain's* banks when the Loan Guarantee Scheme was introduced that they were using it to re-finance existing small company customers rather than new ones.)

The "eight year" rule on a public share offering implies that the investing companies *must concentrate on ploughing* funds into small businesses which will be "ripe" within that time scale. Clearly a limit should be set somewhere, but o decade at least would seem more appropriate for newly-formed companies and those whose development is firm but not dramatically fast. Moreover, the hill lays down that the investing companies from the start must have the legal form of an Aktiengesellschaft (joint stock company).

This is liable to involve them in extra costs and administrative expense even in the first years when ideally their whole attention should be concentrated on management and their small business clients. There seems no good reason why there could not be more flexibility on the legal form initially (as there is, for example, with the SBICs in the U.S.).

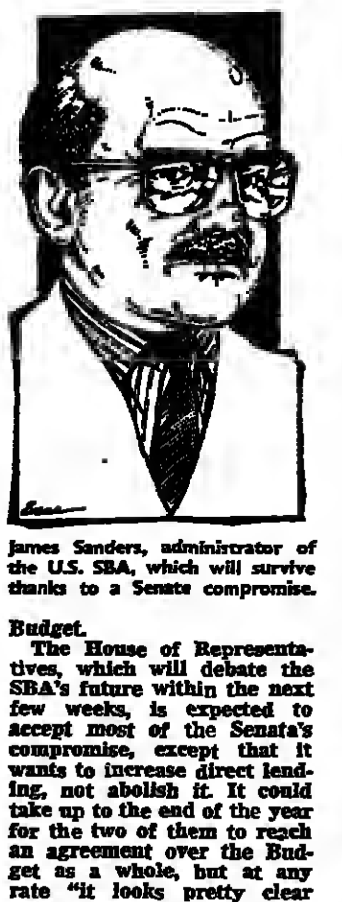
Some of these problems will no doubt be ironed out during parliamentary discussion. But there is one other decisive disadvantage which will need sorting out if the scheme is not to be still born. The bill underlines that the new investing companies will not be liable to trade and wealth tax. But so far there is no sign that—in contrast to the existing investment funds—they will not be liable for corporation tax on profits from the sale of stakes they have held. If that is not corrected the Germans-in-the-street are unlikely to be interested.

U.S. SMALL Business Investment Companies (SBICs), on which the new West German proposals are partly modelled, have played an important part in tha growth of the American venture capital industry.

Established in 1958 and regulated by the Government, they have to date invested \$5bn (£3.9bn) in small companies, providing tha start-up finance for venture capital success stories like Wang Laboratories, Apple Computer and Federal Express, the U.S. courier service. Last year, *they accounted for \$450m of* the more than \$3.5bn invested by the U.S. venture capital industry.

Their future was threatened in February when President Ronald Reagan proposed in his Budget message to phase out the Small Business Administration (SBA), which finances and licenses the SBICs, and turn over some of the agency's *functions*—like advocating the cause of small *business within* the Government—to the Commerce Department.

The Senate has since come up with a compromise, *supported by the Administration*, whereby the SBA will survive, but shed some of its peripheral tasks *like* providing soft loans for small businesses hit by currency translation losses. The Senate is also proposing that SBICs should no longer borrow directly from the SBA, but instead have access to Treasury-backed funds: a mainly technical change designed to take the cost of financing SBICs out of the



James Sanders, administrator of the U.S. SBA, which will survive thanks to a Senate compromise.

Budget.

The House of Representatives, which will debate the SBA's future within the next few weeks, is expected to accept most of the Senata's compromise, except that it wants to increase direct lending, not abolish *it*. It could take up to the end of the year for the two of them to reach an agreement over the Budget as a whole, but at any rate "it looks pretty clear that the agency will now survive," says James Sanders, administrator of the SBA.

SBICs are run like private venture capital companies, but with two important differences. They can borrow cheap long term funds (up to 10 years) from the SBA, which is prepared to lend up to three times as much as provided by the SBICs' privata investors. In practice, the SBA accounts for about half of the \$2bn currently invested by SBICs.

Secondly, SBICs are unlike private venture capital companies in that they are allowed to be owned by banks. U.S. law prevents commercial banks from owning more than 5 per cent of the equity of any non-banking group, unless it happens to be an SBIC. Of the 400 SBICs now in existence, 95 are owned by banks, and they account for 40 per cent of the \$1bn private capital invested in all SBICs.

SBIC regulations are of littla use to venture capital groups which do not hava a steady flow of income and therefore *find it difficult* to service borrowings. They have instead tended to rely on equity finance, which the SBA is not equipped to provide for SBICs.

Walter Stults, president of the National Association of SBICs, *points out that* the SBICs' borrowing costs could be pushed up marginally if direct lending is abolished. "But it's a fair trade-off," ha says. "We have been through o traumatic experience. It was very difficult for our members to operate in a long-term investment capacity when they could not be sure that the SBS and the SBICs would be around o year from now."

William Dawkins

In brief...

THE Forum of Private Business has asked the Government to consider a proposal which could cut many hours from the time needed to understand and comply with official regulations.

Stan Mendham, the Forum's chief executive, has devised four simple, self-explanatory forms, which he claims include all the key information an entrepreneur needs to supply to the Government when setting up and running a business.

He has sent them to Lord Young, Minister without Portfolio, Norman Fowler, the Social Services Secretary, Sir Lawrence Airey, chairman of the Inland Revenue, and Tom King, the Employment Secretary.

Mendham has challenged them to draft a summary of their own departmental regulations affecting small businesses on a single sheet of paper in the form of a questionnaire.

The Forum conducted a survey at the end of last year showing that the proprietor *of a two-man limited company* about to start trading needed to spend more than 34 hours reading 269,200 words of official documents just to gain a basic grasp of the regulations affecting employment, sick pay, health and safety, Value Added Tax, PAYE and National Insurance.

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Tha guide costs £14.95 plus £1 p & p from Venture Capital Report, 20, Baldwin Street, Bristol BS1 1SE.

Enterprise agencies

Pressure builds for commercialism

LOCAL enterprise agencies are in danger of concentrating too heavily on creating jobs at the expense of assisting the birth of new companies, warn two Scottish academics.

"They have been under pressure to show in some tangible way that the Government's faith in them is justified," write Simon Booth and Chris Moore of the University of Strathclyde in their paper, New Doubts over Government's Enterprise Policy. As a result, they argue, the enterprise agency movement has become a "numbers game."

Their study, conducted as part of a larger investigation into unemployment in inner cities for the Economic and Social Research Council, is based on the experiences of just two enterprise agencies—the Ardrossan, Saltcoats and Stevenson Enterprise Trust (Asset) of Ayrshire and Entrust in Newcastle—but it nevertheless draws some important conclusions for the movement as a whole.

It follows the publication of a survey by Business in the Community, the agencies' umbrella body, which estimated that agencies were helping to create more than 75,000 jobs annually through their assistance to start-ups and existing businesses.

The real measure of enterprise agencies' performance, maintain Booth and Moore, should be the number of new businesses they help to create and the ability of those ventures to survive. They cite the example of Asset, which believes that its most significant achievement is not job creation but the fact that it has let 270,000 sq ft of floorspace to 59 companies over the past three years.

That may be just another kind of numbers game, but it does give a measure of the "potential for the future diversification of the economic base and the stimulation of new investment" in Asset's area, they argue. "No short-term measures or fixation with jobs created can substitute for this longer-term requirement."

Brian Wright, director of the London Enterprise Agency (LEntA), admits that agencies are under pressure to show short-term results. This comes chiefly from their private-sector sponsors, which account for roughly half of most agencies' resources, and frequently feel they have a duty to shareholders to demonstrate that their philanthropy is being used effectively.

Booth and Moore fear that many agencies are shifting emphasis towards assisting existing businesses and away from the more time-consuming and difficult process of aiding start-ups. Examples include Entrust and the Rossendale Enterprise Trust, which have recently launched management support schemes for businesses which have already received other kinds of assistance.

While these are, as Business in the Community points out, natural extensions of agencies' activities, they also point to a dilemma over whether the movement should be prepared to offer help to all comers, some of which will waste its advisers' time, or whether it should concentrate on supporting ventures which have an obvious chance of success.

"You have got to run both together, but it's a difficult act to do," says Wright. "If you have got slender resources, you have got to opt for where you think those resources are going to be used best."

This shift in emphasis could well be reinforced if, as is widely feared, the private sector's considerable support for the movement becomes less generous, argue Booth and Moore. "We may well find in five years' time that instead of 200 agencies backed by industrial sponsors, we have perhaps 150 which are self-supporting and concentrate on encouraging profitable enterprises as well as charging for business services," they write.

Some agencies already do charge for certain kinds of service. LEntA, for instance, runs profit-making training courses on contract to large companies, but uses the earnings from these to back its community work.

At the same time, Booth and Moore fear that if financial pressures on the agencies get much more intense, they will be forced to become so commercially minded that start-up ventures, unable to pay for advice, will be left out in the cold.

William Dawkins

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The business assets, order book and goodwill of this Ipswich based company are offered for sale by its receivers. The company specialises in the exporting of surgical equipment and medical supplies principally to the Middle East and Africa. Turnover for the 6 months to 30 April 1985 was in excess of £400,000.

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APPOINTMENTS

Senior post at Standard Chartered

STANDARD CHARTERED BANK has appointed Mr J. S. W. Burke as administrator UK territory. His main responsibilities will be to assist in the development of banking services and related systems. He has joined the boards of Standard Chartered Bank Ireland and Standard Chartered Bank (Isle of Man), and continues as a director of Standard Chartered Leasing Company, of which he was general manager.

★

Mr Christopher Wigan has been appointed to the board of N. M. ROTHSCHILD & SONS.

★

Mr David Mair is to become non-executive chairman of UNICHEM, the independent pharmaceutical wholesaler.

★

NATIONAL PROVIDENT INSTITUTION (NPI) has appointed Mr John H. Cook as assistant general manager (sales and marketing); and Mr Bernard J. Brindley, assistant general manager, becomes appointed actuary from July 1.

★

Mr Ron Johnson has been appointed director and general manager of LEASELINE, a TKM Automotive company. Previously Mr Johnson headed Wadham Stringer's premier vehicle dealership at Guildford, another company in the group.

★

Mr Don Berrington, currently engineering director of the WESTLAND HELICOPTER AND HOVERCRAFT GROUP, has been appointed deputy managing director, following the decision of Mr Jack Bower, operations director, to retire on June 30.

★

Mr Norman Franklin, chairman of Routledge & Kegan Paul, has joined the board of ASSOCIATED BOOK PUBLISHERS.

★

Mr Peter Horton has been appointed managing director of POWERDRIVE PSR, Leamington Spa, from July 1. He was sales and marketing director. Mr Horton takes over from Mr John Pigott who relinquishes his role as managing director but remains chairman. Powerdrive PSR is a wholly-owned subsidiary of Boustead.

★

Mr James Eldon has been appointed vice-chairman of Croydon-based FUTURE COMPUTERS GROUP. Previously he was group financial director of Audiotronic Holdings and group managing director of a British Shipbuilders subsidiary.

★

GOVAN SHIPBUILDERS, a British Shipbuilders subsidiary, says that Mr William Gallacher is rejoining the company as deputy managing director on July 1. He left the company at the end of January to join Harland and Wolff, Belfast.

MITSUBISHI ELECTRIC (UK) has appointed Mr David Parish to head its consumer products division, following the retirement later this year of Mr Ray Russell. Mr Parish, currently marketing director of Granada Television Rental, becomes managing director consumer products on September 16, although Mr Russell will remain a director of Mitsubishi Electric.

★

SUTER has appointed Mr Tony Owen as managing director of its newly-formed light engineering group. He is currently managing director of Searle Manufacturing, a wholly-owned Suter subsidiary.

★

Mr Ted Harry has been appointed managing director of UBM GLASS, a part of the construction division of Norcros. Mr Harry was the director responsible for manufacturing and merchanting.

★

Mr Barry J. Purcell has resigned as managing director of the METROPOLE GROUP. He is replaced by two managing directors. Mr Martin Holland, formerly with parent company Lonrho's U.S.-based company, Princess Hotels, takes over as managing director of Metropole Hotels. Mr Andrew Love, formerly managing director of Lonrho's Dutton Forshaw Motor Group, has responsibility for Metropole Casinos as managing director.

Noble Lowndes makes changes

NOBLE LOWNDES AND PARTNERS has made the following appointments: Mr Karl Daniels, managing director, corporate services worldwide; Mr John McKirdy, managing director, personal financial services worldwide; Mr Tony Delahunt, financial director; Mr John Malpass, managing director for North America; and Mr Arthur Duff, managing director, Noble Lowndes Pensions.

FIDELITY, a member of the Caparo Industries Group, has appointed Mr Derek Hayes as technical director. He was technical director and general manager of Pye and managing director of the marine division of Plessey. Mr Alan Edwards becomes production director. He was operations manager with Phillips and plant director of Pye and Dynatron. Mr Colin Steele is made finance director. He was a finance director in the Cape Industries Group.

★

Mr Graham Street has been appointed to the board of MONEX BROKERS.

★

Mr Charles H. Tidbury has joined the board of DAVENPORTS BREWERY (HOLDINGS). He is a non-executive director and previously chairman of Whitbread and Co.

★

Mr John H. Dodd has been appointed group secretary of BABCOCK INTERNATIONAL. He succeeds Mr E. G. Lunn who has retired.

CRODA INTERNATIONAL has appointed two associate directors. Mr Roger Fossey, who joined in 1972, becomes director for computer services. Mr Roy Ainger joined in 1974 as assistant company secretary.

★

HELIX EXPERT SYSTEMS has appointed Mr David Imberg as its new managing director. He was formerly European managing director of Ashton-Tate.

★

Mr John Gibson, managing director of BELLWAY, has retired. He is succeeded by Mr Howard C. Dawe, who was technical director. Mr Roy Stewart, company secretary, has also retired, and is succeeded by Mr Peter Stoker, the company's solicitor.

★

Mr John G. W. Gelling has been appointed a director of MERTON ASSOCIATES (CONSULTANTS). He was chief executive of St Martins Hospitals.

★

Mr Martin B. Church has been appointed deputy managing director of INTERFINET (UK), London-based marketing subsidiary of AP-Dow Jones/Telerate Company of New York.

★

DUBILIER has appointed Mr Chris R. Bean as group managing director and chief executive. He succeeds Mr Peter D. Cowell, who has been appointed president and chief executive officer of Ion Beams Systems Inc, a recently-formed company into which the operations of Ion Beam Technologies Inc, Boston, Massachusetts, and Dubilier Scientific, have been transferred. Mr Cowell becomes a non-executive director of Dubilier and continues as deputy chairman. Mr Bean is appointed Dubilier's representative director on the IBS board.

★

Mr David Thompson has been appointed managing director of BULL THOMPSON & ASSOCIATES, which has acquired the business of Bull Homes (Management). Mr Thompson was previously with Odgers & Co.

★

Mr Richard Fairclough, a main board director of Lopex, has been appointed chairman of LOPEX PUBLIC RELATIONS.

★

Following last month's acquisition by BBA GROUP of the automotive interests of Cape Industries, Mr Malcolm A. Wright has been appointed to undertake specific projects for the enlarged automotive business, including integration of the overseas automotive interests acquired from Cape into the BBA Group. Before the acquisition Mr Wright was chairman of the automotive division of Cape Industries.

★

Mr Neil Sutherland has been appointed managing director of ITT CANNON, Basingstoke. In 1982 he joined Kenneth E. Beswick as managing director, a member of the Dubilier Group. In 1983 he was seconded to the U.S. to manage newly-acquired Dubilier Group companies as president of Automotic Connector Inc, and of Arco Electronics Inc. In 1984 he returned to the UK as general manager of Greenpar Connectors, another Dubilier subsidiary.

★

Mr Peter D. Kidd, marketing manager of THE FALCON PIPE GROUP, has been promoted to director.

★

LAMBERT HOWART GROUP has appointed Mr Robert Garsit as a director. Mr Phil Jacobs has retired from the board.

★

Mr Raymond J. Alston has been appointed a director of S. W. TAYLOR & CO. He is managing director of the UK division. Mr Barry Cook, Mr Bill Garside, Mr Wilf Baker and Mr Kevin Meacher have been appointed divisional directors of the UK division.

★

Mr Leslie W. Melville, chairman of COUNTY AND DISTRICT PROPERTIES has relinquished his executive responsibilities to devote more time to his other interests. He will continue as a director of Costain Group and as non-executive chairman of County and District, UK property arm of Costain Group. Mr K. R. Egerton, managing director of County and District, will be responsible for all Costain Group's UK property activities.

★

Following the appointment of Dr Alan Wickens to the new post of director of engineering development and research at BRITISH RAIL's technical centre in Derby, Dr Wickens will be responsible for the overall direction of BR research and development programme and will act as a focus for policy for technical developments. He will have an assistant director (development) — Mr Peter Law. Dr Robert Sparrow will head the research division as director, research, concentrating on the day-to-day responsibility and management of the division which has nearly 800 staff, mainly based at Derby, although there are also laboratories at Crewe, Doncaster, Glasgow, London and Swindon. There three senior assistants — Dr Alistair Gilchrist, assistant director (research) will be responsible for the technical content and quality of the research programme. Mr Tony Collins, assistant director (programmes) will take over research planning, finance and transport technology assessment projects, and act as an interface with the railway business sectors and technical and operating functions. Mr John Birkby, assistant director (resources) will cover administration, staff training, information and public affairs, and ensure that relationships with the railway supply industry are dealt with on a sound commercial basis.

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In accordance with the provisions of the notes, notice is hereby given that on 15th May 1985 notes to the value of USD 35,000 of the 12⅜% issue due 1985 were converted into 10⅜% notes due 1995. 15th May 1985 being the last conversion date, SNCF 10⅜% issue date 1995 amounts to USD 55,000.

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(Registration No. 03 05091 06)

Preference Dividend No. 61

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ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED
per O. M. DAVIDSON
Divisional Secretary

Head Office: 44 Main Street, Johannesburg 2001
London Office: 40 Holborn Viaduct, London EC1P 1AJ
June 4 1985

AAC
ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED
(Incorporated in the Republic of South Africa)
(Registration No. 01 02309 06)

Dividend No. 112 on Preferred Stock

[illegible]

C. L. MALTBY
Secretary

Head Office: 44 Main Street, Johannesburg 2001
London Office: 40 Holborn Viaduct, London EC1P 1AJ
June 4 1985

BfG Finance Company B.V.
U.S. $100,000,000
FLOATING RATE NOTES DUE 1996

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from 4th June, 1985 to 4th September, 1985 the Notes will bear interest at the rate of 8¼% per annum. The coupon amount per U.S.$10,000 Note will be U.S.$204.44.
The Interest Payment Date will be 4th September, 1985.

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CHEMICAL NEW YORK CORPORATION
U.S.$200,000,000 FLOATING RATE SENIOR NOTES DUE 1999

[illegible]

Money Market Cheque Account Jersey

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THE COMMERCIAL BANK OF THE NEAR EAST PLC

[illegible]

N. M. [illegible]
Secretary

THE COLNE VALLEY WATER COMPANY

[illegible]

SECTION III – INTERNATIONAL MARKETS
FINANCIAL TIMES
Tuesday June 4 1985

Dairy mountain heads for rise despite Soviet sale, Page 38

WALL STREET

Bonds profit from rate expectations

FEDERAL bonds surged ahead on Wall Street from the opening of the market on growing expectations that both the Federal Reserve discount and bank prime rates will soon be cut, *writes Terry Byland in New York.*

Spurred on by weakness in the dollar in New York, long-dated bonds jumped by more than two points in early trading, bringing yields to their lowest levels this year. Trading was heavy, with retail buyers taking an active role.

At mid-session, bond prices were off the top after the Fed had intervened with $1.5bn in customer repurchases, but still showing gains of 1½ points.

Bonds were extending the sharp gains recorded on Friday when a further round of weak economic data, coupled with the closure of four banks in Nebraska, heightened belief that the Federal Reserve will be forced to promote lower interest rates. At the same time, hints of a cut in British North Sea oil prices this week implied a reduction of inflationary pressures.

The stock market opened strongly also but turned mixed at mid-session when the blue chips ran into hefty profit-taking. Turnover was extremely heavy and analysts were confident that the prospect of lower interest rates would drive stocks to new highs.

The Dow Jones industrial average, having briefly touched a new peak of 1,316.41, turned down later and by 2pm was showing a net fall of 2.46 at 1,312.95.

The market leaders showed an irregular pattern, often after turning back from a firm start. Motor stocks, traditionally beneficiaries of lower interest rates, held close to Friday's closing levels. Ford shaded by $⅛ to $43⅞, while General Motors at $71⅞ remained unchanged.

The technology sector, weak in recent sessions, steadied despite news of further layoffs by National Semiconductor, which edged ahead by $¼ to $11. But a weak feature was Apple Computer, $1⅛ down at $16¼ after Mr Stephen Jobs, cofounder, stepped down from the operating seat.

IBM added $⅛ to $128¾, and other computer groups to turn firmer included Burroughs $½ up at $62 and Honeywell $⅛ firmer at $60¼. Digital Equipment, number two to IBM, added $⅝ to $105.

Oil stocks weaked on prospects of another slide in crude prices. Exxon dipped $¼ to 53⅛ and Phillips Petroleum $¼ to $38.

The hint of lower oil prices brought gains in airline stocks. Pan American remained steady at $6¾ but several of the domestic carriers moved ahead. The best feature was United, $2⅛ higher at $56⅛ as the airline continued to function effectively despite the strike by its pilots.

Investors continued to buy stocks in the major banks, whose earnings benefit from the fall in short-term rates. Bankers Trust, at $71, added $¾ and J. P. Morgan gained $⅝ to $51¼.

At the top of the active list was Nabisco Brands which eased by $½ to $81½ after R. J. Reynolds had offered $4.9bn or $85 a share for the equity in one of the largest non-oil industry deals on record. More than 3m Nabisco shares were traded, as some speculators, who hoped for a $91 a share bid, sold out. The lower-than-expected offer pushed R. J. Reynolds stock ahead by $1⅛ to $76.

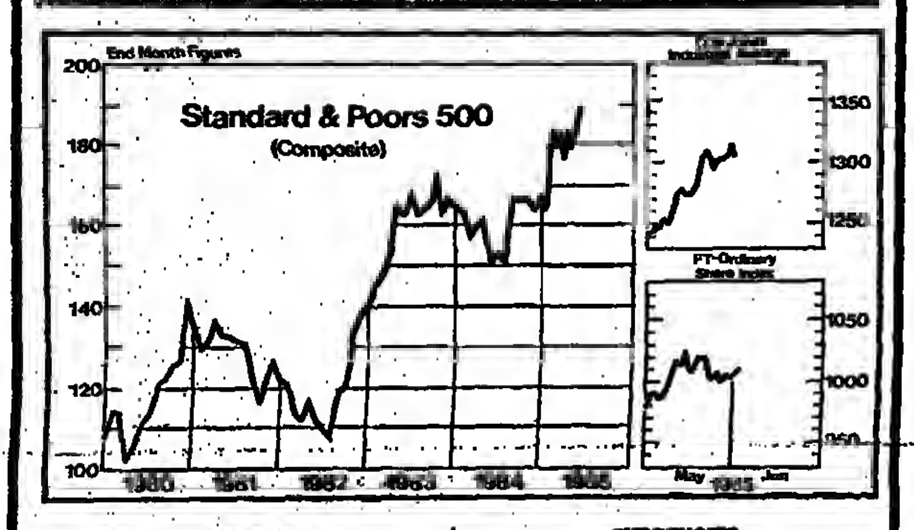
Heavy block trading featured a $120m deal in 2m Atlantic Richfield shares, and a $4m deal of 1m shares in Bats Industries, the UK tobacco firm which trades on the American Stock Exchange in the form of American depositary receipts.

In the credit markets, prices settled down at midday, when federal funds continued to trade at 7¹¹⁄₁₆ per cent despite the Fed's intervention at that level. Treasury-bill rates were down by 8 to 12 basis points and certificates of deposit rates by 10 to 12 basis points.

In the bond market, the retail buyers who showed their hands last week, bought stock again yesterday, although the suddenness of the upturn also indicated swift action by the trading houses. Early prices were not held but midday saw the key long bond at 107²⁴⁄₃₂, a net gain of 1¹⁹⁄₃₂.

Corporate bond prices surged on the expectation that future borrowers will be able to offer lower yields. Municipals also strengthened by about one point.

KEY MARKET MONITORS



STOCK MARKET INDICES

	June 3	Previous	Year ago
NEW YORK			
DJ Industrials	1,312.95*	1,315.41	1,124.35
DJ Transport	649.64*	645.16	478.09
DJ Utilities	163.11*	163.32	124.37
S&P Composite	N/A	189.55	153.24
LONDON			
FT Ord	1,010.7	1,002.5	843.3
FT-SE 100	1,324.6	1,313.0	1,055.8
FT-A All-share	638.9	634.16	501.29
FT-A 500	701.85	696.58	550.12
FT Gold mines	450.7	451.0	711.5
FT-A Long gilt	10.6	10.67	10.71
TOKYO			
Nikkei-Dow	12,473.41	12,758.4	9,913.2
Tokyo SE	984.62	997.03	766.1
AUSTRALIA			
All Ord.	872.3	873.4	665.2
Metals & Mins.	534.5	537.7	441.7
AUSTRIA			
Credit Aktien	96.67	96.45	54.71
BELGIUM			
Belgian SE	2,373.84	2,364.78	—
CANADA			
Toronto			
Metals & Minls	1,964.8*	1,964.7	1,695.0
Composite	2,745.8*	2,736.3	2,258.1
Montreal			
Portfolio	133.97*	133.49	109.58
DENMARK			
SE	190.99	n/a	179.27
FRANCE			
CAC Gen	232.5	233.1	172.2
Ind. Tendance	129.9	130.4	88.5
WEST GERMANY			
FAZ-Aktien	461.95	459.29	340.71
Commerzbank	1,355.0	1,345.7	988.3
HONG KONG			
Hang Seng	1,641.25	1,613.87	917.5
ITALY			
Banca Comm.	303.22	307.87	205.35
NETHERLANDS			
ANP-CBS Gen	212.1	211.4	154.3
ANP-CBS Ind	174.0	172.9	123.8
NORWAY			
Oslo SE	345.97	343.02	270.87
SINGAPORE			
Straits Times	closed	812.41	938.1
SOUTH AFRICA			
JSE Golds	–	closed	996.2
JSE Industrials	–	closed	985.9
SPAIN			
Madrid SE	110.25	109.59	84.23
SWEDEN			
J & P	1,360.83	1,372.08	1,416.62
SWITZERLAND			
Swiss Bank Ind	433.5	432.3	358.8
WORLD	May 31	Prev	Year ago
Capital Int'l	212.5	211.3	173.9

GOLD (per ounce)

	June 3	Prev
London	$316.00	$316.00
Zürich	$315.50	$316.50
Paris (fixing)	N/A	N/A
Luxembourg	N/A	N/A
New York (Aug)	$318.40	N/A

CURRENCIES

(London)	U.S. DOLLAR June 3	U.S. DOLLAR Previous	STERLING June 3	STERLING Previous
$	–	–	1.2945	1.2865
DM	3.045	3.0565	3.9475	3.9325
Yen	248.8	251.15	321.25	323.0
FFr	9.29	9.32	12.015	12.0075
SwFr	2.562	2.5725	3.315	3.315
Guilder	3.433	3.451	n/a	4.435
Lira	1,947.5	1,951.50	n/a	2,511.5
BFr	61.35	61.56	n/a	78.7
C$	1.3558	1.3745	1.768	1.767

INTEREST RATES

	June 3	Prev
Euro-currencies (3-month offered rate)		
£	n/a	12⅝
SwFr	n/a	5⅛
DM	n/a	5¾
FFr	n/a	10⅝
FT London Interbank fixing (offered rate)		
3-month U.S.$	7¹¹⁄₁₆	7¾
6-month U.S.$	7⅞	8⅛
U.S. Fed Funds	7⅝*	7.56
U.S. 3-month CDs	7.45*	7.50
U.S. 3-month T-bills	7.00*	7.17

U.S. BONDS

	June 3* Price	June 3* Yield	Prev Price	Prev Yield
Treasury				
9⅝ 1987	100⅞	8.695	100⅞	8.83
11⅞ 1992	109⅜	9.90	108⅝	10.09
11¾ 1995	107⅞	10.045	106⅝	10.24
11¼ 2015	107⅞	10.386	106⅝	10.53
Corporate				
AT & T				
10⅜ June 1990	100⅜	10.30	100⅜	10.30
3⅜ July 1990	79⅝	8.90	79⅝	8.90
8⅜ May 2000	82⅝	11.15	82⅝	11.15
Xerox				
10⅞ March 1993	97⅞	10.95	97⅞	10.95
Diamond Shamrock				
10⅜ May 1993	97⅞	11.05	97⅞	11.05
Federated Dept Stores				
10⅜ May 2013	92.31	11.55	92.31	11.55
Abbot Lab				
11.80 Feb 2013	102.959	11.50	102.959	11.50
Alcoa				
12½ Dec 2012	101.596	12.00	101.596	12.00

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
U.S. Treasury Bonds (CBT) 8% 32nds of 100%				
June	78-23	78-28	78-20	n/a
U.S. Treasury Bills (IMM) $1m points of 100%				
June	93.03	93.03	92.99	n/a
Certificates of Deposit (IMM) $1m points of 100%				
June	92.70	92.73	92.71	n/a
LONDON				
Three-month Eurodollar $1m points of 100%				
June	n/a	n/a	n/a	n/a
20-year Notional Gilt £50,000 32nds of 100%				
June	n/a	n/a	n/a	n/a

COMMODITIES

(London)	June 3	Prev
Silver (spot fixing)	N/A	477.80p
Copper (cash)	N/A	£1,121.50
Coffee (July)	£2,021.50	£2,034.00
Oil (spot Arabian light)	N/A	$26.825

* *Latest available figure*

Some material was unavailable for this panel as a result of a British Telecom communications failure

LONDON

Gilts find support on firm pound

THE POUND'S continued strength against the U.S. dollar backed support for gilts in London yesterday during an active session.

As the pound furthers its recovery, hopes linger that there may be a small reduction in short-term interest rates on the way and this was sufficient to push aside fears about money supply figures.

Equity markets took their cue from gilts, although activity remained centred on stocks singled out as possible takeover targets.

The FT Ordinary share index firmed 8.2 to 1,010.7.

Prominent among the speculative gains were Distillers which added 7p to 295p and Thorn EMI with a 15p advance to 478p.

Early demand for gilt-edged securities came from domestic and foreign sources and the Authorities supplies of Exchequer 11 per cent 1990 and Treasury 11¾ per cent 2003/07 were quickly exhausted. There was also good demand for the new £200m tranche of conversion 10½ per cent 1999 which enabled the Government to supply stock at 95¾ and 95⅞.

Chief price changes, Page 30; Details, Page 31; Share information service, Pages 32–33

AUSTRALIA

UNCERTAINTY dominated trading in Sydney, reflected in an erratic course among most leading mining and industrial issues.

The possible introduction of a capital gains tax by the Federal Government caused the hesitancy which pushed the All-Ordinaries index 1.3 lower to 872.2 after being marginally ahead at mid-session.

Among resource stocks, BHP added 4 cents to A$6.28 while CRA eased 10 cents to A$6.20 and CSR 1 cent to A$2.71.

Gold stocks were mixed with Peko down 5 cents to A$4.25 as Placer gained 50 cents to A$20.00 and Central Norseman 4 cents to A$8.40.

ACI was again heavily traded with more than 1m shares moving through the market as the stock firmed a further 3 cents to A$2.45.

HONG KONG

BUYING interest re-emerged in Hong Kong after last week's consolidation, leaving most indicators at their peaks for the day.

The Hang Seng index added 27.38 to 1,641.25 on a significant increase in turnover compared with Friday.

Cheung Kong added 40 cents to HK$17.10, China Light 10 cents to HK$16.10, Hongkong Land 15 cents to HK$8.00 and Hongkong Wharf HK$8.75.

CANADA

A FIRM TREND developed during trading in Toronto although resource stocks were well off their peaks.

Toronto-Dominion stood out in a strong banking sector, trading up C$⅝ to C$22⅝, while Northland Bank, which said it closed a private placement of C$16m of debentures, slipped 5 cents to C$4.60.

Trading remained thin in Montreal with bank shares also demonstrating strength.

SOUTH AFRICA

A FAILURE by the gold price to extend recent gains dragged leading bullion stocks off their peaks in Johannesburg after a firm opening.

Vaal Reefs held its ground through most of the day to close R1.50 higher at R186 while Buffels eased R1 to R81. Cheaper issues moved in a narrow range.

De Beers lost 5 cents to R10.85 while industrials closed mixed in light trading.

TOKYO

Retreat from records

INDIVIDUAL investors sold electricals and biotechnologies in large quantities during trading in Tokyo yesterday, driving share prices down in their ninth sharpest drop in history, *writes Shigeo Nishiwaki of Jiji Press.*

Institutional investors, which had been keeping the market firm, retreated to the sidelines.

The Nikkei-Dow average of 225 select issues nose-dived 218.06 to 12,473.41 on a volume of 518.92m shares, down from Friday's 658.37m. Declines outnumbered advances 560 to 235, with 115 issues unchanged.

Prices began climbing on May 27 as institutional investors bought large-capital shipbuilding and power stocks, pushing up the market indicator to an all-time high of 12,790.27 last Thursday. The average rose 196 points during those four days, to lose 318 to three sessions from Friday.

Some leading broking houses thought biotechnologies and electricals would continue to lose, while others were confident the slide would halt after yesterday's technical reaction.

In the morning, blue chip electricals and precision instruments lost ground on a wide front and were followed by biotechnologies and drugs.

Sony slipped below Y4,000, plunging Y170 to Y3,940 on reports that the U.S. International Trade Commission (ITC) might seek a suspension of Japanese floppy disk drive exports to the U.S. Hitachi dropped to Y700 at one stage, before closing Y1 down at Y709. Trading in Sony and Hitachi was only slightly heavier than usual, totalling 530,000 shares and 3.83m shares, respectively.

Asahi Chemical, which shot up to an all-time record of Y1,130 on Saturday, came under heavy profit-taking pressure, and plummeted Y60 to Y1,010. Mochida Pharmaceutical suffered a daily limit loss of Y500 to Y9,450, while Green Cross finished at Y2,420, down Y140.

Large-capital issues, which had been expected to lead the way up in June, eased after profit-taking. Nippon Express second on the active list with 14.59m shares, lost Y6 to Y414. Mitsubishi Heavy Industries and Tokyo Electric Power declined Y4 and Y60 to Y289 and Y2,070 respectively.

Financial and construction issues were major gainers. Tokio Marine and Fire Insurance advanced Y14 to Y937, on the third heaviest trading of 12.27m shares. Yasuda Fire and Marine and Sumitomo Marine and Fire were also in the top 10 list.

Investors in the bond market kept a low profile. The yield on the 7.3 per cent government bonds due in December 1993 dipped to 6.530 per cent from Saturday's 6.545 per cent.

EUROPE

Banks give Frankfurt new impetus

MOST European bourses continued to be buoyed by hopes for lower interest rates and this, combined with a lower dollar and a record performance by Wall Street on Friday, took prices higher.

Frankfurt ended another hectic trading session with some prices just nudging their highs for the year. The Commerzbank index of 60 leading shares, which began its latest rise on May 17, put on 9.3 to 1,355.0, its 11th consecutive peak.

Banks moved into the foreground, setting the market's pace, after speculation that Kuwaiti investors may be planning a move into the sector, and on interest rate hopes.

Commerzbank rose DM 11.50 to DM 210.50, Dresdner was DM 4.50 higher at DM 236 ex-dividend, while Deutsche Bank, which surged DM 20 on Friday, fell to profit-taking, ending DM 8 lower at DM 548 ex-dividend.

Foreign investors showed interest in electricals, chemicals and car stocks. Daimler-Benz continued its strong run, rising DM 7 to DM 832, but BMW eased DM 1 to DM 384.

Siemens led the electrical sector and repeated its performance in the previous trading session by adding DM 4 to DM 568.50.

The easier dollar prompted activity in bonds which ended about 25 basis points higher. The Bundesbank sold DM 114.6m worth of domestic paper after selling DM 27.8m last Friday.

Five out of the eight bourse indices in **Amsterdam** reached new 1985 highs as buying demand emerged over a broad front.

Financials were strongly sought and rises in that sector were bigger than the average market gains. Both NMB and insurer Aegon put on Fl 4.50 to end higher at Fl 191 and Fl 194.50 respectively.

Demand from the U.S. boosted KLM Fl 3.50 to Fl 62.40 and in other blue chips, Royal Dutch gained 10 cents to Fl 197.40.

Speculation on U.S. interest rate trends boosted bond prices, which advanced by between 20 cents and Fl 1.

Industrials were favourites in a higher **Zurich**, with Ciba-Geigy SwFr 15 ahead at SwFr 2,530 and Hoffman-La Roche SwFr 50 firmer at SwFr 9,000.

Nestlé, SwFr 30 lower at SwFr 8,300, suffered from concern about the size of its SwFr 300m issue of bonds with warrants.

Swiss bonds ended barely changed in slow trading.

Paris suffered from profit-taking after broad advances in recent weeks. Prices were mixed to lower with declines outnumbering advances by 97 to 82.

However, stores were firmer with Galeries Lafayette, the market leader, FFr 35 higher at FFr 425, Printemps was FFr 1.10 ahead at FFr 285.10, and Carrefour jumped FFr 230 to FFr 2,540.

In foods, BSN Gervais shed FFr 25 to FFr 2,540 while Moët-Hennessy was FFr 39 lower at FFr 2,665.

Peugeot, expected today to announce that its net loss was more than halved in 1984, shed FFr 4 to FFr 365.

The last day of the monthly account in **Brussels** saw active trading take stocks mostly firmer. Interest was shown in financials after last week's cut in the official discount rate.

Volume was heavy in the financial holding company, Société Generale de Belgique, up BFr 30 at BFr 2,005. In other banks, Société Generale de Banque added BFr 20 to BFr 3,350.

OECD reports of an expected slowdown in Sweden's economy kept **Stockholm** uneasy and prices declined in slow trading.

Among pharmaceuticals, Pharmacia dropped SKr 3 to SKr 188 and Alfa-Laval shed SKr 2 to SKr 179.

Car maker Volvo was SKr 7 easier at SKr 229, while telecommunications group Ericsson also shed SKr 7 to SKr 303.

Selling pressure left **Milan** lower, triggered by political uncertainties over the forthcoming national referendum on a revised indexed wage system.

Madrid moved higher with food issues leading the advance. Banks and communication issues were also popular.

Prices at 3pm, June 3

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23⅛	18	AAR	.48	2.5	14	22	19	18⅝	19	+¼
18½	9⅝	AGS			12	17	13¾	13¾	13¾	−¼
16⅝	9⅝	AMCA				22	10⅞	10⅝	10⅝	−¼
21½	13¾	AMF	.50	2.8	55	180	19⅝	18⅝	18⅝	−¼
47¾	24¼	AMR			11	4629	u48⅛	47⅛	47½	−⅛
21½	18⅝	AMR pf	2.18	10.		163	u21⅞	21¼	21⅞	+⅝
25⅞	22⅞	ANR pf	2.67	11.		1	24	24	24	
14¼	7¾	APL				5	8⅞	8¾	8¾	
65¼	44⅜	ASA		24.2		226	50⅞	50	50½	−⅛
27	14⅛	AVX	.22	2.1	12	70	13½	15¼	15¼	
25¼	18	AZP	2.72	11	6	2051	25¼	25	25⅛	
54⅝	36¾	AbtLab	1.40	2.6	16	1734	u54¾	54½	54¾	+⅝
25⅞	17⅜	AccoWd	.44	2.2	17	52	22¼	22¼	22¼	
19½	12½	AcmeC	.40	2.8		518	14¾	14¼	14½	+⅛
10½	7⅝	AcmeE	.32b	4.2	12	18	8⅛	8	8	
17⅛	15	AdaEx	1.92e	11.		75	17⅜	17⅛	17⅜	
20	11⅞	AdmMl	.32	2.1	8	2	15⅝	15⅝	15⅝	+¼
19½	8⅝	AdvSys	.53t	3.2	17	43	16⅝	16⅝	12⅞	
41⅛	25⅛	AMD			11	3821	28⅞	25⅜	35⅞	−⅝
12¾	8⅞	Advest	.12	1.4		132	8¾	8½	8½	−¼
14⅝	8	Aerflex			12	213	13¼	13⅛	13⅛	+⅛
46⅝	27¼	AetnLf	2.64	5.7	34	3073	46¼	45¾	46	+½
57¾	52⅜	AetL pf	5.83e	10.		59	56½	20⅛	56½	
38	17⅛	Ahmns	1.20	3.5	14	844	34⅞	33⅝	34¼	+¾

Continued on Page 29

AMERICAN STOCK EXCHANGE COMPOSITE PRICES

Prices at 3pm, June 3

Continued on Page 30

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued from Page 28

51⅛	43⅜	Weyr pf4.50	9.0		34	50	49¾	49¾	−¼
24⅛	9⅜	vjWhPit			44	8¼	9	8	
40½	14⅛	vjWPit pfB			z490	18¾	18¾	18¼	
38	19½	vjWhPit pf			z100	15	15	15	−½
49½	36¾	Whrlpl 2	4.4	9	886	45⅝	45¼	45½	+⅝
32½	24⅛	WhitC 1.50	5.4		162	28	27⅞	28	+⅛
41½	36⅝	WhitC pfC 3	7.2		1	41½	41½	41½	+¼
31	17⅝	Whitehl		11	61	28⅜	28⅛	28⅜	+⅛
25⅛	14½	Whittak .80	2.7	11	257	22⅜	22	22⅜	+⅛
12¼	8⅝	Wiebldt	4.6		34	8¾	8½	8⅝	+¼
14⅛	9	Wilfrd n		11	15	12	11¾	11¾	−¼
21⅞	22¾	William1.40	4.8	7	3047	31⅛	30¼	30¼	−¾

Continued on Page 30

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a—dividend also extra(s). b—annual rate of dividend plus stock dividend. c—liquidating dividend. cld—called. d—new yearly low. e—dividend declared or paid in preceding 12 months. g—dividend in Canadian funds, subject to 15% non-residence tax. i—dividend declared after split-up or stock dividend. j—dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k—dividend declared or paid this year, an accumulative issue with dividends in arrears. n—new issue in the past 52 weeks. The high-low range begins with the start of trading. nd—next day delivery. P/E—price-earnings ratio. r—dividend declared or paid in preceding 12 months, plus stock dividend. s—stock split. Dividends begins with date of split. sls—sales. t—dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u—new yearly high. v—trading halted. vi—in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd—distributed. wi—when issued. ww—with warrants. x—ex-dividend or ex-rights. xdis—ex-distribution. xw—without warrants. y—ex-dividend and sales in full. yld—yield. z—sales in full.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

May 31	Price Frs.	+ or —
[illegible]		
Ciment CBR	2,850	+130
Cockerill	240	+5
Delhaize	6,700	
EBES	3,070	—30
Electrobel	6,570	
Fabrique Nat	1,975	—10
GB Inno BM	4,680	+12
GBL (Brux)	2,035	+25
Gevaert	5,950	
Hoboken	5,710	+30
Intercom	2,285	+15
Kredietbank	2,100	+180
Pan Hldgs	10,250	—50
Petrofina	5,140	—30
Royale Belge	11,975	—25
Soc. Gen. Banq	3,360	+20
Soc. Gen. Belge	2,005	+50
Sofina	7,180	+50
Solvay	4,430	+10
Stanwick Intl	1,500	
Tractionel	4,360	+60
UCB	5,480	—20
Wagon Lits	3,630	+30

DENMARK

June 3	Price Knr %	+ or —
Andelsbanken	297	
Baltic Skand	663	
CopHandelsbank	272	
D. Sukkerfab	500	+3
Danske Bank	304	
De Danske Luft	1,165	
East Asiatic	245	+12
Forenede Brygg.	925	
Forenede Damp.	159	+3
GNT Hldg	405	—2
I.S.S.B.	460	
Jyske Band	632	
Novo Ind	1,880	—45
Privatbanken	274	+2
Provinsbanken	341	+1
Smidth (F)	242	+1
Sophus Berend	1,076	
Superfos	432	—2

FRANCE

June 3	Price Frs.	+ or —
Emprunt 4½% 1973	1,630	+16
Emprunt 7% 1973	8,320	+6
Accor	300	+2
Air Liquid	670	—10
BIC	560	—1
Bongrain	1,280	—23
Bouygues	860	+10
BSN Gervais	2,640	—25
CIT-Alcatel	1,349	—1
Carrefour	2,540	+230
Club Mediter'n	525xc	—2
Cie Bancaire	645xc	+3
Cofimeg	292.8	+3.5
Damart	2,300	
Darty	1,435	—40
Dumez S.A.	709	—1
Eaux (Cie Gen)	705	+12
Elf-Aquitane	223	—6
Essilor	2,600	—45
Gen. Occidentale	746	+3
Imetal	120.8	—0.7
Lafarge Coppee	378	—3
L'Oreal	2,700	+30
Legrand	2,360	+11
Maisons Phenix	262	+1
Matra S.A.	1,230	+50
Michelin B	1,070	
Midi (Cie)	2,663	—33
Moet-Hennessy	1,999	—39
Moulinex	98	+2.3
Nord Est	92.3	—3
Pernod Ricard	757	—2
Perrier	557	+9
Petroles Fra	373	—2
Peugeot S.A.	365	—4
Printemps Au	288.1	+1.1
Radiotech	286.5	—1.5
Redoute	1,400	—25
Roussel-Uclaf	1,685	—3
Sefimeg	359	
Skis Rossignol	1,622xc	—28
Telemech Elect.	2,655	—15
Thomson CSF	547	—14
Valeo	223	—2

GERMANY

June 3	Price Dm.	+ or —
[illegible]		
Hochtief	541	+11
Hoechst	239.7	+4
Hoesch Werke	112.9	+1.5
Holzmann (P)	493	+8
Horten	177	
Hussel	286	+0.5
Karstadt	226	—8.6
Kaufhof	229	—3.3
KHD	260	+1
Kloeckner	70.8	—0.6
Linde	457	+7
Lufthansa	125	+0.3
MAN	165	+1
Mannesmann	175.8	+3.7
Mercedes Hld	737.5	+1.3
Metallgesel	264.3	
Munech Rueck	1,480	+70
Nixdorf	595	+3
Porsche	1231	—1
Preussag	276.3	+0.5
Rhein West Elect	167.5	+1.3
Rosenthal	259	+3
Schering	471.3	+1
Siemens	568.8	+4
Thyssen	107.3	+0.8
Varta	226	+2
Veba	194.9	+1.4
V.E.W.	185	+1
Verein-West	625	+3
Volkswagen	254.5	+18.5

ITALY

June 3	Price Lire	+ or —
Banco Com'le	19,450	—432
Bastogi-IRBS	214.7	—3.8
BJ-Invest	8,640	—50
Centrale	3,232	—41
Credito Varesino	4,050	—70
Fiat	3,127	—43
Finsider	70.2	
Generali Assicur.	46,330	—600
Italcementi	21,250	—850
La Rinascenti	785	—13.5
Montedison	1,664	—26
Olivetti	2,492	—21
Pirelli Co	4,140	—32
Pirelli Spa	2,359	—26
Snia BPD	8,121	—103
Toro Assic	13,150	—310
do Pref	10,380	—350

NETHERLANDS

June 3	Price Fls	+ or —
ACF Holding	206.3	
AEGON	194.5	+4.5
Ahold	227.5	+2
AKZO	108.4	+1.3
ABN	450	+6
AMEV	246.8	+3.3
AMRO	82	+1.2
Bredero Cert	176.5	
Bos Kalis Westm.	18.7	+0.1
Buehrmann-Tet.	94.3	+2.8
Calland Hldgs	34.3	—2
Dordtsche Pet'm	177.8	—1.7
Elsevier NDU	119	+1
Fokker	126.2	+0.2
Gist Brocades	186.6	+1.5
Heineken	149.1	+0.5
Hoogovens	61	+0.6
Int Mueller	47.6	—0.2
KLM	62.4	+2.3
Naarden	48	—0.2
Nat Ned Cert	66.3	+0.1
Ned M'd Bank	121	+4.6
Nedlloyd	154.3	+1.5
Oce Grinten	328.5	+0.5
Ommeren (Van)	22.3	+0.3
Pakhoed	82.3	+0.8
Philips	56.5	+0.2
Robeco	74.3	—0.2
Rodamco	139	—0.4
Rolinco	68.8	
Rorento	45.9	+0.1
Royal Dutch	197.4	+0.1
Unilever	347	+2
VMF Stork	202.2	—2.5
VNU	207.6	+4.1
West Utr Bank	106.8	—1.2

NORWAY

June 3	Price Kroner	+ or —
Bergens Bank	138.6	—.05
Borregaard	450.5	+8
Christiania Bank	136	
DenNorske Cred	167	+1.5
Elkem	143	
Kvaerner	167	+2
Norsk Data	355xc	
Norsk Hydro	110	
Storebrand	269	

SPAIN

June 3	Price Pts%	+ or —
Bco Bilbao	348	
Bco Central	312	
Bco Exterior	216	
Bco Hispano	160	+2
Bco Popular	362	
Bco Santander	342	—2.1
Dragados	153	+1
Hidrola	85	
Iberduero	94	+0.8
Petroleos	148.2	+6
Telefonica	122	+1.2

SWEDEN

June 5	Price Kronor	+ or —
AGA	363	—26
Alfa-Laval	179	—2
ASEA (Free)	332	+2
Astra (Free)	435	
Atlas Copco	109	
Cardo (Free)	237	
Cellulosa	118	—3
Electrolux B	274	—1
Ericsson	623	—7
Esselte	375	
Mo och Domsjo	180xc	—6
Pharmacia	186	—3
Saab Scania Free	420	
Sandvik	365	
Skandia	267	+1
Skan Enskil'da	45.5	
SKF	206	—4
St Kopparbergs	142	+2
Sven Handlesbn	147	+1
Swedish Match	200	—3
Volvo B (Free)	229	—7

SWITZERLAND

June 3	Price Frs.	+ or —
Alusuisse	803	+3
Bank Leu	3,775	—25
Brown Boveri	1,660	+10
Ciba Geigy	3,250	+10
do. (Part Certs)	2,530	+13
Credit Suisse	3,600	
Elektrowatt	2,770	—10
Fischer (Geo.)	825	+13
Hoff-Roche PtCts	88,750	
Hoff-Roche 1/10	9,000	+60
Jacobs Suchard	6,350xr	+60
[illegible]		

AUSTRALIA

[illegible]

AUSTRALIA (continued)

June 3	Price Aust.$	+ or —
Gen. Pro. Trust	2.32	+0.01
Herdis (James)	3.22	+0.02
Hartogen Energy	3.37	—2.02
Herald W'y Times	4.60	
ICI Aust.	1.25	—0.02
Jimberlana F.P.	0.29	—0.03
Kia Ora Gold	2.14	
Lend Lease	6.5	—0.12
MIM	3.23	—2.81
Meyne Nickless	3.15	
Myer Emporium	1.94	
Nat. Aust. Bank	4.56	—0.08
News	7.7xc	
Nicholas Kiwi	1.23	
North Bkn Hill	2.4	—0.05
Oakbridge	1	—0.61
Pancont'l	1.75	
Pioneer Conc	1.70	
Poseidon	4.1	+0.04
Queensland Coal	1.64	+0.01
Reckitt & Coln	4.52	+0.01
Repco	1.20	
Santos	8.7	
Smith (Howard)	4.75	—0.01
Thos. Natwide	1.92	+2.01
Tooth	6.66	+0.02
Vamgas	4.13	+0.05
Western Mining	3.95	
Westpac Bank	4.3	+0.02
Woodside Petrol	1.60	
Woolworths	2.8	—0.08
Wormald Intl	3.7	+0.1

HONG KONG

June 6	Price H.K.$	+ or —
Bank East Asia	26.6	+0.3
Cheung Kong	17.1	+0.4
China Light	16.1	+0.1
Evergo	0.99	+0.05
Hang Seng Bank	83	
HK Electric	8.45	+0.15
HK Kowloon Wh.	6.75	+0.25
HK Land	6	+0.15
HK Shanghai BK.	6.13	+0.05
HK Telephone	95.5	—1.5
Hutchinson Wpa	25.3	+0.3
Jardine Math	11.8	+0.2
New World Dev.	7.12	
Orient O'seas	2.15	—0.02
Oseas Trust Bk.	3.05	—0.07
SHK Props	12.6	+0.5
Shell Elect.	1.32	
Swire Pac A	23.4	+0.7
TV—B	7.25	+0.25
Wheel'k Mard A.	7.3	
Wheel'k M'time	1.10	
World Int. Hldns.	3.2	+0.05

JAPAN

June 3	Price Yen	+ or —
Ajinomoto	1,110	—30
Alps Electric	1,460	—40
Amada	870	—20
Asahi Chem	1,010	—30
Asahi Glass	851	—12
[illegible]		

JAPAN (continued)

June 3	Price Yen	+ or —
MHI	289	—4
Mitsui	361	+1
Mitsui Estate	843	
Mitsukoshi	600	—13
NGK Insulators	805	—35
Nihon Cement	287	—9
Nippon Denso	1,250	—30
Nippon Elect	999	—1
Nippon Express	414	—62
Nippon Gakki	1,380	—20
Nippon Kokan	136	
Nippon Oil	826	—24
Nippon Seiko	504	—61
Nippon Shimpan	612	—1
Nippon Steel	149	—2
Nippon Suisan	359	—1
NTV	10,500	—480
Nippon Yusen	263	—2
Nissan Motor	310	+3
Nisshin Flour	515	—3
Nisshin Steel	168	—1
Nomura	1,122	—30
Olympus	1,100	—30
Orient Leasing	3,850	
Pioneer	1,700	
Renown	691	+2
Ricoh	885	—35
Sankyo	1,300	—50
Sanyo Elect.	410	
Sapporo	479	—10
Sekisui Prefab	727	+19
Seven-Eleven	8,790	+100
Sharp	878	+22
Shimadzu	700	—44
Shionogi	830	—15
Shiseido	1,090	
Sony	3,940	—170
Stanley	817	—58
S'tomo Bank	1,830	—30
S'tomo Elect	781	—44
S'tomo Marine	676	
S'tomo Metal	150	+1
Taisei Dengyo	600	+6
Taisei Corp.	242	+4
Taisho Pharm	1,110	—120
Takeda	860	—3
TDK	4,350	—200
Teijin	445	—12
Teikoku	768	—5
Tokio Marine	934	+14
TBS	579	—20
Tokyo Elect Pwr	2,070	—50
Tokyo Gas	221	—5
Tokyo Sanyo	656	—11
Tokyo Style	881	+1
Tokyu Corp	422	+6
Toppan Print	843	—20
Toray	466	—11
Toshiba Elect	358	—3
TOTO	745	—1
Toyo Seikan	965	—30
Toyota Motor	1,210	—10
Victor	1,700	+80
Wacoal	702	—10
Yamaha	716	+1
Yamanouchi	2,910	—70
Yamazaki	750	—15
Yasuda Fire	254	+12
Yokogawa Bdge.	489	—8

SINGAPORE

May 31	Price $	+ or —
Boustead Hldgs.	1.87	—0.02
[illegible]		

SOUTH AFRICA

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
Prices at 2.30pm
June 3

[illegible]

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

[illegible]

LONDON

Chief price changes
(In pence unless otherwise indicated)

[illegible]

Continued on Page 34

NEW YORK PRICES

Continued from Page 29

[illegible]

AMERICAN STOCK EXCHANGE PRICES

Continued from Page 29

[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

Sterling's strength and interest rate hopes fuel further gains in Gilt-edged

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
May 13	May 30	May 31	June 10
June 3	June 13	June 14	June 24
June 17	June 27	June 28	July 8

* "New-time" dealings may take place from 9.30 am two business days earlier.

Government stocks enjoyed another firm and active trading session yesterday. Any lingering doubts about today's money supply figures were soon shrugged aside as sterling came to within a whisker of the $1.30 level before closing 80 points higher on the day at $1.2945. This revived hopes of a small reduction in short-term interest rates in the not too distant future. Equity markets took their cue from Gilts, but activity here centred largely on the current take-over favourites.

Early demand for Gilt-edged securities came from both domestic and overseas investors and the Authorities' supplies of Exchequer 11 per cent 1990 and Treasury 11¾ per cent 2003-07 were quickly exhausted; £200m of each stock was issued on Friday and made available to the market only yesterday morning. There was also a good demand for the new £200m tranche of Conversion 10¼ per cent 1999 which enabled the Government to supply stock at 95¼ and 95⅞. After the initial flurry, interest tended to fade but most quotations closed at or near the day's best. Rises in the shorts ranged to ½, while the longer maturities posted rises extending to ⅞ and occasionally more.

Helped by last Friday's good performance on Wall Street and the encouraging tenor of the CBI survey, leading equities made a bright start. Interest throughout the day was at a relatively low level, but selective buying together with speculative gains in **Distillers** and **Thorn EMI** left the Financial Times Ordinary share index with a gain of 8.2 at 1,010.7.

Life issues good

Life Insurance shares came to the fore awaiting the Government's Green Paper on the social security system. There was a ready response to week-end press mention, while secondary stores were outstanding following a revival of takeover speculation.

Speculation that the Government's Social Security review Green Paper would contain a proposal to abolish the State earnings-related pension scheme prompted good gains among Life Insurances. Buying on hopes that this would lead to a substantial increase in the sector's pension business left closing improvements ranging to nearly 30. **Britannic** led the way with a rise of 28 to 780p, while **Sun Life** put on 26 to 868p, after 875p, and **Pearl** appreciated ½ to £12¼. **Refuge** firmed 15 to 396p as did **Pru** to 680p and **Legal and General** to 703p. **Equity and Law** touched 275p before closing 13 to the good at 270p.

Clearing banks moved higher with the general trend. **Barclays** fared well with a rise of 14 at 392p, while **NatWest** added 7 at 672p. Elsewhere, **Union Discount**, a dull market on Friday following the proposed £14.4m rights issue, edged forward 5 to 700p.

The debut of fresh vegetable packing group **Wold** in the Unlisted Securities Market failed to match best expectations; offered at 95p the shares opened at 113p and slipped to 104p prior to closing at 106p. Among other recently-issued equities, **Coloroll**, which has languished below its offer price since dealings began to mid-May, revived strongly and closed 6 higher at 124p.

Distillers, 7 better at 295p, attracted interest aided by several brokers' circulars; the results are expected next month.

Leading Buildings made reasonable headway and closed at the day's best. **BPB** were a particularly good market, at 275p, up 6, while **Tarmac** rose the same amount to 600p and **Blue Circle** firmed 4 to 532p. **French Kier** were prominent among secondary issues at 160p, up 7, as hopes of a bid from Trafalgar House resurfaced, but **Tilbury Group**, which made early progress to 144p on takeover speculation, eased back to close unchanged on balance at 140p. Confirmation that the company had acquired 72,500 of its own shares at prices between 648p and 655p lifted **Newarthill** 10 to 670p, while a continuing bear squeeze left **Y. J. Lovell** 8 higher at 230p. Among Timber issues, **Meyer International** were an active market on consortium takeover hopes and touched 147p prior to closing a net 4 higher at 145p. **Trent Holdings** continued to respond to favourable press comment and firmed 4 afresh to 92p. Demand in a restricted market lifted builders merchants **F. Copson** 8 to 53p.

ICI, a firm market last week on hopes that the group could benefit from increased ethylene demand, were held in check by currency considerations and settled 6 off at 768p.

Debenhams up again

Debenhams attained a new high of 399p before settling 9 higher on balance at 397p following news over the weekend that House of Fraser—now controlled by the Egyptian Al-Fayed family—had acquired just under 5 per cent of the equity; **Burton**, unwelcome bidders for Debenhams, improved 7½ to 480pxd. Elsewhere, **Woolworth** traded actively in the new slimmed-down form and advanced 19½ to 420p ex the scrip issue and dividend; the new 8¾ per cent convertible rallied a couple of points to £9 premium.

Once again, a host of features emerged among secondary Stores. Asset value situations continued to make the running with **Owen Owen** another 13 up at 288p, and **Elys (Wimbledon)** 25 to the good at 445p. **Body Shop International** remained in buoyant mood and spurted another 98 to 843p reflecting persistent speculative attention in front of interim figures scheduled for June 12. Others to show to good advantage included **Our Price**, 20 up at 540p, **Vantona Viyella**, 12 dearer at 340p, and **Combined English**, 5 firmer at 148p. Favourable press comment lifted **Albert Martin** 5 to 70p, **A. G. Stanley** 6 to 71p, and **Liberty** 80 to 630p. Mail orders made fresh progress for a similar reason with **Empire** ristog 12 to 128p.

Thorn EMI dropped to 459p in reaction to adverse press comment, but rebounded smartly to close 15 higher on balance at 478p as takeover hopes resurfaced. Other Electrical majors trended quietly firm. **Racal** added 6 to 194p and **Standard Telephones and Cables** gained 4 to 174p. Elsewhere, **Crystalate** rose 7 to 155p following comment on the recent Board changes and **Oceonics** rallied 8 more to 80p on further consideration of the company's reassuring statement regarding the recent setback in the share price. Bumper annual profits gave a fillip to **FKI** which added 4½ to 48p and **Microgen** advanced 20 to 350p in response to press comment. **United Scientific**, on the other hand, fell 13 to 210pxd following the liquidation of speculative positions to the absence of the widely-rumoured bid.

Revived speculative demand on takeover hopes lifted **TI** 10 to 278p in a firm Engineering sector. **GKN** found support at 228p, up 6, while **600 Group** rose 4 to 105p on demand ahead of the annual results scheduled for June 13. Sharply higher last week on the bid approach, **United Wire** rose 12 more to 210p awaiting further developments. Weekend press comment prompted gains of around 5 in **Downiebrae**, 27p, **R. Cartwright**, 165p, and **United Spring**, 30p. **Pegler Hattersley** put on 6 to 286p in anticipation of tomorrow's preliminary statement.

Food Retailers met with selective demand. Recently-overlooked **Associated Dairies** improved 6 to 160p with **MFI Furniture** rising 12 to 300p in sympathy. **Dee Corporation** gained 7 to 251p. Reports that the company had received a bid approach from Ward White boosted **Maynards** 14 to 310pxd. Elsewhere in the Food sector, **Tate and Lyle** attracted supported 470p, up 6, while **Iceland Frozen Foods** rose 10 to 543p.

A couple of bright features emerged in the Hotel sector. results due shortly lifted **Mount Charlotte** 6¼ to 94p.

Reed Int wanted

Numerous firm features emerged among miscellaneous industrials. **Reed International**, up on Friday following the decision to sell its building products business, advanced 26 more to 638p, after 650p, in anticipation of bumper annual profits tomorrow. **Rank Organisation** revived with a rise of 10 at 358p, while **Beecham** put on 6 to 385p to Press comment. **Hanson Trust** improved 4 to 237p ahead of today's interim results. Elsewhere, **Pentland** again reflected U.S. growth prospects with a fresh gain of 1 to £10, while **UKO International** added 3 to 140p after speculative buying ahead of today's annual results. **Halma** firmed 10 to 243p in response to acquisition details and **A. & P. Appledore** appreciated 15 to 295p on Press comment. Meanwhile, comment on the Brammer bid situation lifted **Bunzl** 23 to 471p. **De La Rue** advanced 23 to 878p to front of today's preliminary statement. **Marshall Loxley "A,"** at 74p, gained 6 after revived speculative buying, while improvements of 10 and 12 respectively were seen in **Wedgwood**, 206p, and **Pearson**, 370p. The late announcement of share-exchange bid terms from Polly Peck left **Inter-City Investments** 3 lower at 52p, after 58p, and **Cornell** 10 down at 280p, after 278p, P.P. closed 4½ off at 269p xd.

Motor sectors improved across a broad front. **Jaguar** returned to favour and rallied 9 to 274p. Among Components, **Lucas Industries**, busyed by revived Press suggestions of a bid from the U.S., closed 7 up at 309p. **Automotive Products** also found favour and rose 6 to 79p, while **Airflow Streamlines** hardened the turn to 30p following virtually unchanged preliminary profits. **Keep Trust** improved 8 to 81p; last Friday, Keep announced revised and final offer terms for Adams and Gibbon, unchanged yesterday at 258p.

Advertising agencies provided a couple of contrasting features. **Geers Gross** remained depressed by the profits warning and slumped to a new low of 78p before settling a net 25 off at 83p—a drop of 45 over the past two trading sessions. **Lowe Howard-Spink**, on the other hand, rose 17 to 280p amid unconfirmed reports that the company has won the Lloyds Bank advertising account.

Among otherwise subdued Properties, **C. H. Beazer** found support and rose 15 to 390p, while late demand lifted **Stock Conversion** the same amount to 515p.

The problems currently confronting the Shipping Industry—illustrated last week by the demise of Reardon Smith—weighed on **Common Brothers** which shed 10 to 48p in a narrow market.

Britoil advance

Britoil held centre-stage in a generally quiet oil sector; a Press suggestion that BP has approached the Government for its remaining 49 per cent stake in Britoil at a price well in excess of £3 a share prompted an initial flurry of demand, and Britoil touched a record 236p before settling a net 13 up at 230p.

Secondary stocks provided firm features in **Sun (UK) Royalty**, 30 firmer at 215p, and **Great Western Resources**, 15 higher at 240p, both following favourable comment in the weekend Press. **Falcon** were a fraction easier at 100p, in the wake of the subdivision of the shares from 20p to 10p and the subsequent one-for-two scrip issue.

Kloof/GFSA suspended

The suspension at the outset of trading in **Kloof** and **Gold Fields of South Africa**, ahead of news of a major new gold mining development, prompted substantial demand for the London-domiciled **Consolidated Gold Fields**, which rose 21 to 563p, after 565p. Kloof and GFSA were quoted at £30¼ and £13¼ respectively at the close of trading on Friday. Other South African golds ended the day with minor changes in either direction. The sector edged higher in early trading, boosted by Continental support following the improvement in the bullion price, but faltered in mid-afternoon when the oil price cut by Oman saw bullion retreat from around $319 to $313 in a matter of minutes. The gold price subsequently rallied to close unchanged at $316 an ounce.

Selling pressure from Paris and the U.S. unsettled Golds towards the close of business and the Gold Mines index was left with a 0.3 decline at 450.7.

Among the leading heavyweights **Randfontein** were finally around £1¼ lower at £78½, while falls to the region of ½ were common to **Doornfontein**, £13½ and **Harmony**, at a year's low of £10¼. Cheaper priced issues showed **East Daggafontein** 13 firmer at 298p reflecting the company's modest stake in the new Kloof gold mining project. **Wit. Nigel** returned from suspension at 65p. South African Financials managed minor gains. **Anglo American Corporation** attracted support ahead of the preliminary results which were not known during market hours. UK issues showed **Charter** 3 firmer at 190p and **Hampton Areas** a similar amount higher at the same price.

The recent weakness in Australians was extended to the eighth successive session following another uninspiring performance by Sydney and Melbourne markets overnight. **CRA** were a major casualty, slipping 6 more to 316p—a fraction above the year's low point—while in Golds **Gold Mines of Kalgoorlie** lost 10 to 470p.

Demand for Traded Options remained disappointingly low. Total contracts struck amounted to only 5,622 comprising 4,371 calls and 1,251 puts. A lively two-way business developed in the FT-SE 100, however, with 215 calls and 241 puts done. Imperial Group and Jaguar attracted 438 and 349 calls respectively, British Telecom recorded 617 calls and 224 puts.

FINANCIAL TIMES STOCK INDICES

	June 3	May 31	May 30	May 29	May 28	May 24	year ago
Government Secs.	81.82	81.56	81.24	81.02	80.67	80.80	79.54
Fixed Interest	86.65	86.06	85.52	85.91	85.84	85.78	83.08
Ordinary	1010.7	1002.5	1004.5	999.1	1006.6	1001.6	843.5
Gold Mines	450.7	451.0	461.4	463.0	456.4	477.5	711.6
Ord. Div. Yield	4.59	4.62	4.61	4.62	4.59	4.61	4.98
Earnings, Yld.% (full)	11.02	11.60	11.58	11.65	11.54	11.60	15.88
P/E Ratio (net) (*)	10.60	10.62	10.64	10.48	10.57	10.56	11.05
Total bargains (Est.)	23,216	24,626	22,643	22,678	66,853	63,500	21,547
Equity turnover £m.	—	410.67	338.50	588.60	348.70	487.53	297.21
Equity bargains	—	25,952	20,661	18,820	16,536	21,996	20,153
Shares traded (ml)	—	229.5	176.5	183.2	154.0	222.2	151.5

10 am 1004.2. 11 am 1006.0. Noon 1007.1. 1 pm 1008.5. 2 pm 1008.8. 3 pm 1009.0.

Basis 100 Govt. Secs. 15/10/26. Fixed Int. 1928. Ordinary 1/7/35. Gold Mines 12/9/55. SE Activity 1974.

Latest Index 01-246 8026.

*Nil=15.26.

HIGHS AND LOWS | S.E. ACTIVITY INDICES

—	1985 High	1985 Low	Since Compilat'n High	Since Compilat'n Low		May 31	May 30
Govt. Secs.	85.50 (18/8)	78.02 (28/1)	127.4 (9/1/35)	49.18 (3/1/75)	Daily Gilt Edged Bargains	166.4	150.6
Fixed Int.	86.26 (3/5)	82.17 (28/1)	150.4 (28/11/47)	50.53 (3/1/75)	Equities Bargains	156.2	133.8
					Value	630.1	684.4
Ordinary	1524.5 (22/1)	928.7 (3/1)	1524.8 (22/1/85)	49.4 (26/6/40)	5 day Average Gilt Edged Bargains	157.6	160.2
Gold Mines	656.9 (15/4)	486.5 (25/1)	734.7 (15/2/83)	43.6 (26/10/71)	Equities Bargains	134.7	134.0
					Value	773.8	762.6

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section — Mon June 3 1985 (Index No., Day's Change %, Est. Earnings Yield% (Max.), Gross Div. Yield% (ACT at 30%), Est. P/E Ratio (Net), xd adj. 1985 to date) — Fri May 31, Thurs May 30, Wed May 29, Year ago (approx.)

[illegible]

FIXED INTEREST

[illegible]

BRITISH GOVERNMENT INDEX-LINKED STOCKS

[illegible]

†Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London, EC4P 4BY, price 15p, by post 28p.

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS: 50,799

A=Ask B=Bid C=Call P=Put

RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

Renunciation date usually last day for dealing free of stamp duty. [illegible]

NEW HIGHS AND LOWS FOR 1985

NEW HIGHS (138)

BRITISH FUNDS (27)

INT BANK & O'SEAS GOVT STLG ISSUES (4)

CORPORATION LOANS (3)

[illegible]

NEW LOWS (70)

[illegible]

OPTIONS

First Deal-ings	Last Deal-ings	Last Declara-tion	For Settle-ment
May 20	June 7	Aug 29	Sept 9
June 10	June 21	Sept 12	Sept 23
June 24	July 5	Sept 26	Oct 7

[illegible]

ACTIVE STOCKS

[illegible]

FRIDAY'S ACTIVE STOCKS

[illegible]

RISES AND FALLS

[illegible]

LONDON TRADED OPTIONS

[illegible]

June 3 Total contracts 5,622 Calls 4,371 Puts 1,251

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1985 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
100⅞	99	Treas 11½pc 1985	99	...	11.52	12.80
99	97¼	Treas 8¼pcCnv '85	99	+	8.84	12.21
101	99	Exch. 12¼pc 1985	100	+	12.24	11.95
101	99	Exch. 11¼pc '86	99	+	13.76	11.73
99½	97	Treas. 10pcCnv 1986	98	+	10.14	11.66
94⅞	92¼	Treas 3pc 1986	94	+	3.17	9.20
100	97½	Exch. 10½pc Cv '86	99	+	10.60	11.57
101⅞	99¼	Treas 12pc 1986	100½	+¼	11.94	11.49
97	94¼	Treas 8½pc 1984-86‡‡	97¼xd	+	8.74	11.36
105	102	Exch. 14pc 1986	103	+	13.59	11.56
92	87¼	Exch. 2½pc 1986	92	+	2.69	8.08
104	101¼	Exch. 13¼pc 1987	102½	+¼	11.93	11.49
99½	96⅛	Treas 10¼pcCv '87	98¼	+⅛	10.44	11.40
90⅞	85½	Exch 2½pc 1987	90⅜	+¼	2.76	0.61
99	96¼	Exch. 10½pc 1987	98⅝	+	10.65	11.33
93⅛	89	Funding 6½pc '85-87‡‡	93⅛	+	6.96	11.40
98½	95½	Treas. 10pc 1987	97xd	+	10.25	11.40
89¼	84⅛	Treas 3pc 1987	89¼	...	3.36	8.68
102	99⅛	Treas. 12pc 1987	101⅛	+¼	11.84	11.29
93⅛	90¼	Treas 7¾pc 1985-88‡‡	93⅛	+¼	8.31	10.64
98⅞	95⅛	Exch 10½pc '88	98⅛	+¼	10.70	11.20
96	93⅛	Treas 9¼pc Cv '88	96¼	+¼	10.13	13.25
85⅛	80	Transport 3pc '78-88	85⅛xd	...	3.50	8.43
95⅛	91½	Treas. 9½pc '88	95	+⅛	10.01	11.26
101¼	97½	Treas 11½pc 1989	100	+¼	11.43	11.24
95	90¼	Treas 9½pc Cnv. '89	94	+⅛	10.05	11.25
79	79	Treas 3pc 1989	79	+	3.78	9.35
98½	94	Treas 10½pc 1989	97⅛xd	+⅛	10.78	11.25
96	92	Exch. 10pc 1989	95	+¼	10.46	11.32
99	95	Exch 11pc 1989	99⅛	+⅛	11.12	11.20

Five to Fifteen Years

Over Fifteen Years

Undated

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MINES—Continued

Finance

1985 High	Low	Stock	Price	+ or −	Div Net	Cvr	Y'ld Gr's
135	115	Alex Corp SA $1.50	116	.....	Q75c	2.1	[illegible]
£21	£15¼	Ang. Am. Coal 50c	£20	+1½	Q195c	3.1	[illegible]
£11¼	940	Anglo Amer. 10c	£11¼	+¼	Q120c	2.0	[illegible]
£79	£68¼	Ang. Am. Gold R1	£69¼	+1¼	Q1025c	1.0	[illegible]
£33½	£28	Anglovaal 50c	£33		†Q315c	3.3	[illegible]
208	180	Charter Cons. 2p	198	+3	11.0	1.1	[illegible]
33	24½	♦Clogau Gold 10p	29	.....	—	—	—
582	475	Cons. Gold Fields	563	+21	24.5	1.4	[illegible]
77	53	East Rand Con. 10p	73	.....	11.5	♦	[illegible]
£10¼	875	Gencor R1	£10¼	.....	Q133c	1.2	[illegible]
£17¾	915	Gencor 40c	£12½	..	Q190c	1.2	[illegible]
13½	11¼	Gold & Base 12½p	12½	+½	—	—	—
£15¾	£10¼	Gold Fields S.A. 5c	£13¼	..	†Q200c	2.0	[illegible]
£86	£67	Jo'burg Cons. R2	£83		Q750c	♦	[illegible]
950	750	Middle Wit 25c	940	−10	†Q90c	1.8	[illegible]
780	530	Minorco $BD1.40	680	.....	Q22c	1.4	[illegible]
508	369	New Wits 50c	471	−10	†Q50c	1.7	[illegible]
33	22	Rand London 15c	33	.....	—	—	—
775	500	Rand Min. Props. R1	725	−12½	Q65c	2.6	[illegible]
£28½	£23	T'vaal.Cons.Ld.R1	£28½	+¼	†Q280c	2.6	[illegible]
115	80	Vogels 2½c	105	..	Q16c	♦	[illegible]

Australians

Tins

Miscellaneous

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

OPTIONS — 3-month call rates

"Recent Issues" and "Rights" Page 29

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 per annum for each security.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Continued from Page 30

Stock		Sales (Hnds)	High	Low	Last	Chng
EIP		.12	9¼	9¼	9¼	−¼
EMF		6	3	3	3	
EMPI		7	6¾	6½	6½	−¼
EaglCpt		832	11-16	⅝	⅝	−1-16
EarlCal		33	7⅝	7½	7½	+⅛
EatnF		59	12	11¾	12	+⅜
EconLb	7.04	422	33½	33	33⅛	
EdCmp	.09e	14	10	9¾	9¾	
ElChic		20	10	10	10	−⅛
ElPas	1.46	422	14¾	14½	14⅝	+⅛
Elan	.07e	617	11	10⅝	10¾	−¼
Elbit	0	14	11¼	11¼	11¼	−⅛
Elco	s .72	57	18	18¾	18	−¼
ElderB	.22b	75	16½	15½	15¾	
Eldon	.20	11	17	17	17	+¼
EldrN		40	4⅞	4¾	4⅞	
ElecBio		188	7⅝	7¼	7½	+⅛
ElCath s		117	23½	23	23½	+½
ElsNucl		353	15⅝	15¼	15⅝	+⅛
ElcRnt		728	14¼	14	14	
ElcSci		89	20¾	20¼	20¼	−1¼
ElcSens		18	5⅝	5⅝	5⅝	
ECplarl		14	12¾	12¼	12¼	

Stock		Sales (Hnds)	High	Low	Last	Chng
Emulex		354	9	8¾	8⅞	+⅛
Endta		7	4	3¼	3¾	−¼
Endvco		10	6¾	6⅝	6¾	+⅛
EndoLs		162	13½	13⅛	13¼	−⅛
End wtB		5	8⅝	8⅝	8⅝	
Enrgas	1.60	11	26	25¼	26	
Engnth	1.06b	22	19¼	18	19¼	+¼
EngCnv		94	18½	18	18¼	−½
EnFact		169	11¼	11⅛	11¼	
EngOil s		16	8⅞	8½	8½	−⅜
EngRav		52	¾	11-16	¾	
Engph s	.20	18	13¾	13¼	13¼	−½
EntPub		85	14¾	14¼	14¾	−¼
EntrCpt		78	15	11¾	12	+¼
Envrdn		111	5⅛	4⅞	4⅞	
EnvSy s		65	10	17	17¾	+¼
EnvrT s		10	9¾	9¾	9¾	+¼
EnzoBl		40	13½	13¼	13½	
Epsco		10	9½	9½	9½	−¼
Equat		65	16⅝	16½	16½	−⅛
Equion		17	5⅛	5⅛	5⅛	−⅛
EqtBcp	.84b	61	29	28⅝	28⅝	
EqtwaB	1.28	92	25¼	24½	24½	−½
EqtOil	.20	102	8⅛	8	8	
EricTl	.85e	1356	34¾	34¼	34½	−¼
ErieLac		5	101	101	101	
EvnSut		87	15½	15	15¼	+⅛
Evrgd		20	5½	3½	3½	
Exovir		81	10⅜	9⅞	9⅞	−½
F F						
FDP		40	8½	8	8	−½
FMI	.02e	263	7⅛	8¾	8⅞	−¼
FabWhl	.20	8	15	15	15	−½
FairLn	.16	33	5⅞	5⅞	5⅞	−¼

Continued on Page 40

Indices

NEW YORK-DOW JONES

	June 3	May 31	May 30	May 29	May 28	May 24	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Industrials	1,312.85*	1,315.41	1,305.78	1,302.98	1,301.52	1,301.87	1315.41 (31/5)	1184.96 (4/1)	1315.41 (31/5/85)	41.22 (2/7/32)
Transport	649.54*	645.16	828.85	829.80	828.10	827.55	645.16 (1/3)	553.03 (4/1)	645.16 (31/5/85)	12.32 (8/7/32)
Utilities	163.11*	163.32	162.29	162.18	162.28	161.98	164.75 (17/5)	146.54 (4/1)	164.75 (17/5/85)	10.5 (28/4/42)
Trading vol		134.7m	108.3m	96.5m	90.6m	85.8m	—	—	—	—

	May 24	May 17	May 10	Year Ago (Approx)
Ind Div Yield %	4.79	4.77	4.81	5.87

STANDARD AND POOR'S

	May 31	May 30	May 28	May 24	May 23	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
Indust'ls	209.85	206.01	208.14	208.74	208.04	210.02 (21/5)	128.24 (4/1)	210.08 (21/5/85)	3.62 (30/6/32)
Comp's'te	189.55	187.75	187.85	188.39	187.60	189.72 (20/5)	163.68 (4/1)	819.72 (20/5/85)	4.40 (1/6/32)

	May 22	May 15	May 8	year ago (approx)
Indurtrial div. yield	3.74	3.84	3.82	4.28
Industrial P/E ratio	11.64	11.37	11.14	11.76
Long Gov. Bond yield	10.75	10.98	11.33	13.40

N.Y.S.E. ALL COMMON

May 31	May 30	May 28	May 28	1985 High	1985 Low
309.65	108.73	106.68	108.75	109.72 (20/5)	94.60 (4/1)

Rises and Falls

	May 31	May 30	May 29
Issues Traded	2,014	1,988	2,000
Rises	1,054	768	787
Falls	530	715	722
Unchanged	430	505	491
New Highs	202	142	141
New Lows	15	28	16

New York Active Stocks

	Stocks Traded	3.00p.m. Price	Change on Day		Stocks Traded	3.00p.m. Price	Change on Day
Nabisco	3,484,200	81½	−1⅛	Phibro-Sal	1,422,200	41⅞	−⅛
Mid-So Utl	3,433,400	14½	+¼	Ford Motor	1,382,500	43⅞	−⅛
Ad Rich	2,573,600	60⅛	−½	Exxon	1,373,200	52½	−1½
Dean Shem	1,861,100	17¾	−½	Fannie Mae	1,358,800	28	+⅝
United Air	1,594,100	55½	+1⅞	Sears Roe	1,218,800	38⅝	+⅛

Advances 888 Declines 704

TORONTO	May 31	May 30	May 29	May 28	1985 High	1985 Low
Metals & Minerals	1884.7	1884.5	2008.2	2014.9	2190.07 (13/2)	1896.0 (4/1)
Composite	2736.8	2726.8	2756.1	2759.0	2739.7 (21/5)	2348.8 (8/1)
MONTREAL Portfolio	136.49	135.01	133.70	134.18	135.05 (21/5)	117.00 (4/8)

	June 3	May 31	May 30	May 29	1985 High	1985 Low
AUSTRALIA						
All ord. (1/1/80)	072.5	973.5	074.8	879.4	904.8 (20/5)	715.5 (7/1)
Metals & Minls. (1/1/80)	584.5	587.9	589.5	542.0	585.8 (20/5)	382.5 (7/1)
AUSTRIA						
Credit Aktien (2/1/62)	98.67	98.45	98.52	87.88	98.67 (3/6)	85.21 (24/1)
BELGIUM						
Brussels SE (1/1/80)	2575.84	2564.78	2549.51	2548.45	2575.84 (5/6)	2090.7 (18/1)
DENMARK						
Copenhagen SE (3/1/83)	190.88	—	190.87	191.45	195.94 (24/5)	192.44 (8/1)
FRANCE						
CAC General (31/12/82)	232.5	233.1	232.8	230.5	238.1 (31/5)	190.5 (8/1)
Ind Tendance (28/12/84)	129.0	130.4	130.1	128.6	130.4 (31/5)	100.1 (3/1)
GERMANY						
FAZ Aktien (31/12/58)	461.55	459.29	450.85	448.10	461.55 (3/6)	382.39 (18/1)
Commerzbank (1/12/53)	1355.0	1345.7	1321.5	1310.1	1355.0 (3/6)	1111.8 (3/1)
HONG KONG						
Hang Seng Bank (31/7/64)	1841.25	1815.87	1821.68	1587.71	1647.88 (17/4)	1220.74 (2/1)
ITALY						
Banca Comm Ital. (1972)	305.22	307.87	311.10	311.34	320.61 (23/5)	228.56 (2/1)
JAPAN**						
Nikkei-Dow (16/5/49)	12478.4	12756.4	12799.8	12767.5	12780.3 (30/5)	11545.2 (5/1)
Tokyo SE New (4/1/68)	984.82	997.05	1000.07	997.91	1006.96 (22/5)	916.95 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	212.1	211.4	218.8	210.8	218.0 (9/5)	185.9 (3/1)
ANP-CBS Indust (1970)	174.6	172.8	172.1	171.8	174.6 (3/6)	147.5 (3/1)
NORWAY						
Oslo SE (4/1/83)	345.87	348.02	338.85	356.20	345.57 (3/9)	288.18 (2/1)
SINGAPORE						
Straits Times (1966)	(c)	612.41	817.18	616.82	852.65 (7/3)	764.38 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	—	(c)	(u)	1020.5	1140.8 (15/4)	856.1 (11/2)
JSE Indust (28/9/78)	—	(c)	(u)	967.8	975.9 (54/5)	767.1 (7/5)
SPAIN						
Madrid SE (28/12/84)	118.25	100.59	109.78	109.28	117.4 (4/2)	101.48 (2/1)
SWEDEN						
Jacobson & P (1/1/58)	1590.85	1572.08	1578.26	1370.06	1488.98 (11/5)	1366.83 (3/6)
SWITZERLAND						
SwissBank Cpn. (31/12/58)	455.5	452.5	432.7	431.1	455.9 (54/5)	366.7 (3/1)
WORLD						
Capital Intl. (1/1/79)	—	215.8	211.3	210.8	212.8 (20/5)	184.8 (4/1)

** Saturday June 1: Japan Nikkei-Dow 13689.5. TSE 996.87.

Base value of all indices are 100 except JSE Gold—255.7, JSE Industrial—264.3, and Australia All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10 and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

FT COMMERCIAL LAW REPORTS

Arbitrator not barred from Gafta appeal

BREMERHANDELSGESELLSCHAFT mbH v ETS SOULES ET CIE

Court of Appeal (Lord Justice Ackner, Lord Justice Browne-Wilkinson and Sir George Waller): May 16 1985

BIAS is not imputed to an arbitrator so as to preclude him from adjudicating on a Grain and Feed Trade Association (Gafta) appeal arising out of the 1973 U.S. embargo on soyabean exports on the ground only that his employer's parent company is a potential party to arbitration arising out of the same situation.

The Court of Appeal so held when dismissing an appeal by Bremerhandelsgesellschaft mbH, sellers, from Mr Justice Mustill's judgment ([1985] 1 Lloyd's Rep 160) refusing their application for removal of Mr Anthony G. Scott from a Gafta Board of Appeal constituted to hear their appeal from an umpire's award made in favour of buyers, Ets Soules et Cie.

LORD JUSTICE ACKNER said that by a contract made on November 20 1972 Bremerhandels sold Soules 1,320 metric tonnes of U.S. soya bean meal, to be shipped each month between April and September 1973.

When the U.S. embargo on the export of soya bean meal came into operation on June 27 1973, Bremerhandels invoked the force majeure clause and then the prohibition clause in the Gafta contract form 100.

On July 30 they gave notice of appropriation in respect of 87 metric tonnes, 40 per cent of the 220 tonnes applicable that month. No further tender was made. On September 21 Soules declared them in default in respect of the unshipped balance.

An umpire's award was published in April 1974, ordering Bremerhandels to pay Soules $65,129. Bremerhandels gave notice of appeal, and on September 24 1976 a Board of Appeal was constituted in accordance with the Gafta rules, with Mr Scott as a member.

Bremerhandels applied to Mr Justice Mustill for an order that Mr Scott be removed on the ground that he was not in a position to act judicially and without bias. They did not allege actual bias against Mr Scott, but imputed bias.

"Imputed" bias arose when the relationship between arbitrator and parties, or arbitrator and the subject-matter of the dispute, was such as to create the risk that he would be incapable of acting impartially.

In the *Elissar* [1984] 2 Lloyd's Rep 84, 89 the test of imputed bias was whether "there existed grounds from which a reasonable person would think that there was a real likelihood that [the arbitrator] could not, or would not, fairly determine . . . the issue . . ."

That was applied by Mr Justice Mustill. He concluded that the reasonable man was to be put in the position of the complainant, having ascribed to him all the complainant's knowledge and experience of the trade and the manner in which disputes were habitually resolved.

He drew a distinction between where the arbitrator had already adjudicated and was under attack in respect of imputed bias, and where the court was considering the apprehension which would be felt by the reasonable man as to the arbitrator's future adjudication.

With regard to the latter, the judge said: "Here the facts emerging in court form part of the corpus of knowledge in the light of which the reasonable man will judge the risk. . ."

That statement was wholly correct.

The judge said that under the clauses in Gafta 100 dealing with *force majeure* the position was difficult with regard to instalments due for shipment during June. He emphasised (1) that a seller would find difficulty in claiming exemption if he was "long" in the goods for the month and destination, since he would have to find a reason why he did not appropriate his surplus to make up the shortfall created by the partial embargo; (2) if the seller was not shipper of the goods, he must try to identify the relevant shipper; (3) he must then go on to prove that the relevant shipper was prevented from shipping the goods.

It was in practice very difficult, said the judge, to satisfy those requirements—so difficult that, as far as he was aware, no seller of June goods had so far been able to establish an exemption from liability.

Mr Scott was a director of European Grain and Shipping, a London company which was the wholly-owned subsidiary of André et Cie of Lausanne, one of the largest commodity houses in the world. He was chairman of the North American Shippers Association.

He had been engaged in the grain and feed trade for more than 30 years, and had regularly acted as arbitrator throughout the past 20 years. During the most recent 11 years he had been elected annually as a member of the Gafta appeal committee.

There was no suggestion of his having any pecuniary or other interest in the subject-matter of the arbitration. The main basis of Bremerhandels' attack was that Mr Scott could not properly act as arbitrator because André, his employer's parent company, was long in soya bean meal for June 1973.

Accordingly, so it was alleged, it was in André's interest for Soules, as buyers, to win the arbitration, and for Bremerhandels, as sellers, to lose.

That, said Bremerhandels, would provide a useful precedent for André to assist it in its future claims. It thus gave rise to an unacceptable conflict of interest which created a real likelihood that Mr Scott would not, or could not, fairly determine the issues.

The judge had no hesitation in rejecting the argument, since the material advanced by Bremerhandels provided only the thinnest evidence to found the supposition that André had a long position.

He was perfectly entitled to take that view. However, he went further, and held that even if it were legitimate to suspect that André was long, the supposed risk of bias would not be established.

There was no evidence of any significant pattern in the outcome of previous arbitrations, with the sellers tending to lose when Mr Scott was sitting on the Board of Appeal, and to win when he was not, thus casting a shadow on his impartiality.

In fact the opposite was the case. Intermediate sellers of the June position had consistently lost whenever he was sitting. They lost not because anyone was biased against June sellers, but because the courts had laid down a test which sellers had hitherto failed to satisfy.

In the judge's view no reasonable man would apprehend that there was a risk of Mr Scott, either consciously or unconsciously, being influenced by a desire to favour André in such a manner as to cause him to fail to assess the fresh evidence on its merits.

There was no error in Mr Justice Mustill's reasoning.

Yet again the judge went further. On the basis that it was legitimate to add the evidence which established the actual facts, the matter became plainer still. The evidence established that André was not long.

That destroyed the whole foundation of Bremerhandels' original case.

It was complained that a person involved in a dispute arising from a particular situation should not act as an arbitrator in another dispute connected with the same situation.

On that basis all the persons whose firms or companies had positions in U.S. soya bean meal between June and September 1973 would be *ipso facto* disqualified from acting as Gafta arbitrators in respect of any dispute arising out of contracts for those months.

The submission was made despite the fact that every trading house and receiver was affected. They included the employer, or its parent company, of practically every arbitrator in London and on the Appeal Board. Over 1,000 arbitrations were started and every arbitrator active in London was engaged in first-tier arbitrations, including the majority of members of the Appeal Board.

As to the suggestion that a person involved in disputes could not be relied on to approach an arbitration with an open mind, Gafta members were particularly concerned to have their disputes decided by arbitrators who were experienced as arbitrators and traders in that particular trade.

Several hundred appeal arbitrations arising out of the non-shipment of soya bean meal in June 1973 had been held since 1974. Bremerhandels had been involved in 158 of them. Mr Scott had sat as an appeal arbitrator in 67 cases involving Bremerhandels.

In the 11 years since the appeals started to be heard, no complaints of bias had been made by Bremerhandels or by any other seller. Also, although the allegations made against Mr Scott had received wide publicity in the trade, no one had come forward to support Bremerhandels.

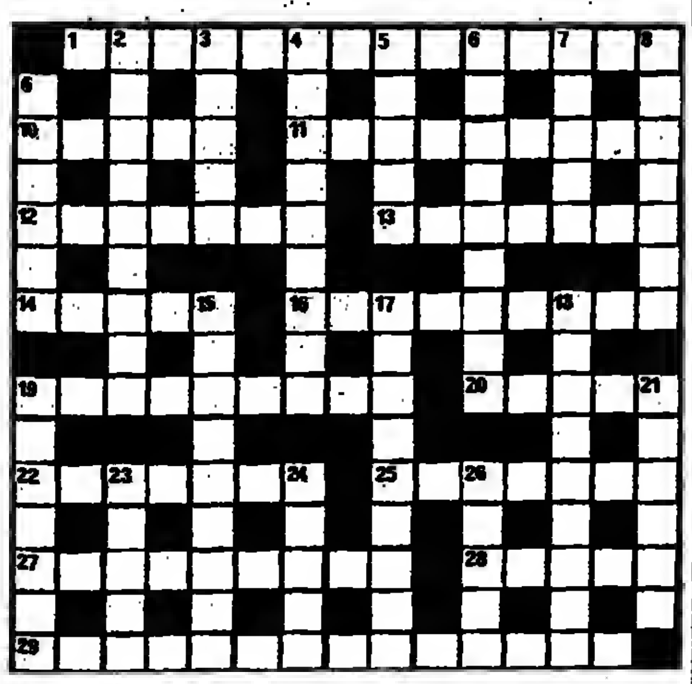
The appeal should be dismissed. Lord Justice Browne-Wilkinson gave a concurring judgment. Sir George Waller agreed.

For Bremerhandels: Andrew Bateson QC and Michael Tugendhat (Masby Barrie and Scott).

For Mr Scott: David Grace QC (Middleton Potts and Co.).

By Rachel Davies
Barrister

F.T. CROSSWORD PUZZLE No. 5,734



ACROSS

1 The Cockney's fruity preference to life's ups and downs (6, 3, 5)
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11 One values a quiet person giving approval (9)
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13 Jerk within modern framework (7)
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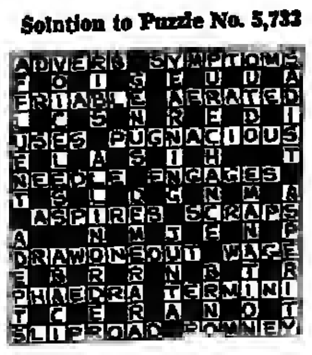
28 Flower oil processed repeatedly (5)
29 The simplest means of transferring from one bank to another (8-6)

DOWN

2 Trips need to be properly organised for a top man (9)
3 Turner the bilingual (5)
4 An entitlement to take part (5-4)
5 Plane-crash in mountainous country (5)
6 Customs charges about to take effect (9)
7 A retiring simpleton one finds very musical (5)
8 Boy occupied by press operator (7)
9 Tot the accountant puts right (4, 2)
15 Plant for gem-cutting? (9)
17 Worry about certain points there's a need for airing (9)
18 Sandwich material (9)
19 Send a churchman concerned with craft (7)
21 Spicy stuff for the head girl! (6)
23 Move left within the party (5)
24 See fit soldier retreating—in retreat (5)
26 Form of greeting the male will love (5)

Solution to Puzzle No. 5,733



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Pearl Trust Managers Ltd. (a)(g)(z)
252, High Holborn, WC1V 7EB. 01-405 8441

Pearl Growth Fd	63.6	67.7	-0.4	3.36
Accum Units	94.1	100.1	-0.6	3.36
Pearl Inc.	87.7	93.3	+0.1	4.95
Pearl Unit Tst.	92.1	98.0xd	-0.1	4.08
(Accum. Units)	155.9	165.9	-0.2	4.08

Perpetual Unit Trust Mngmt. (a) (z)
48, Hart Street, Henley on Thames. 0491 576868

Growth	182.8	195.2	...	1.47
Income	137.5	147.3	-1.5	5.49
Worldwide Recovery	105.2	112.8	...	2.08
American Growth	57.7	62.0	...	0.67
Intl. Emerging Cos.	58.8	63.1	...	0.79
Far East Growth Fd	47.0	50.5	...	1.00

Prolific Unit Trusts
222, Bishopsgate, EC2. 01-247 7544/7

Prolific Far East	103.0	110.4	-3.0	0.41
Prolific Extra Inc.	63.1	67.1	+0.6	5.87
Prolific Gilt Cap.	79.3	82.5xd	+0.6	3.33
Prolific High Inc	131.3	139.7xd	+1.3	5.06
Prolific Intl.	85.0	91.1	-0.8	2.60
Prolific N. Amer.	116.4	124.7	-0.2	1.75
Prolific Spec. Sits.	147.7	157.1xd	+1.4	1.30
Prolific Technology	110.6	118.5xd	-1.8	0.94

Providence Capital Fd. Mgrs. Ltd.
30 Uxbridge Road, London, W12 8PG. 01-749 9111

Japan Trust	48.4	51.3	-0.8	0.19
Worldwide	48.1	51.0	-0.1	1.60
European Trust	47.4	50.2	...	0.92
North American	51.8	54.8	-0.3	1.11
UK Equity	49.1	52.0	+0.2	3.08

Prudential Unit Trust Mngrs Ltd. (a) (b) (c)
51-69, Ilford Hill, Ilford, Essex, IG1 2DL. 01-478 3377

Holborn Equity Tst.	326.4	347.2	+2.5	3.30
Holborn Gilt Tst.	148.4	155.4	+1.1	4.00
Holborn High Inc	53.8	57.2	+0.4	8.06
Holborn Intl.	56.7	60.3	...	0.55
Holborn UK Growth	63.8	67.8	+0.4	2.05

Quilter Management Co. Ltd.
31-45 Gresham Street, EC2. 01-600 4177

Quadrant Gen. Fd	321.6	342.3	...	3.48
Quadrant Income	182.0	191.6	...	6.24
Quadrant Intl. Fund	300.7	316.4xd	-7.1	1.44
Quadrant Recovery	199.9	210.5	...	2.74

Reed Stenhouse Inv Services Ltd
145 Borough High St, Ldn SE1 1NV 01-628 6011

Wellington Inc.	48.4	51.5	...	6.00
Wellington Growth	99.9	106.3	...	2.00

Reliance Unit Mgrs. Ltd.
Reliance Hse, Tunbridge Wells, Kent. 0892 22271

British Life	133.7	141.4	+0.3	4.31
Reliance Unit Tst (Inc)	86.9	92.9	+0.4	3.95
Reliance Ut Tst (Acc)	112.1	119.8	+0.7	3.95

Ridgefield Management Ltd.
35 Fountain St, Manchester M2 2AF. 061-236 5685

Income UT	91.7	98.0xd	...	6.92
International UT	219.0	234.2xd	...	1.00

N.M. Rothschild Asset Management
St Swithin's Lane, London EC4. 01-280 5456

NC America (Inc)	230.7	242.4	-2.1	1.38
NC America (Acc)	245.0	257.8	-2.4	1.38
NC Energy Res. Tst.	169.4	179.3	-1.0	2.30
NC Inc Fd.	336.9	354.6xd	+3.7	5.03
NC Japan Fund	106.3	111.8	-3.7	0.02
NC Smaller Cos	109.0	114.7	+0.2	2.05
NC Smaller European	102.3	107.6	-0.4	0.82
NC Exempt Gilt Tst*	£116.0	121.0	...	11.18
NC American Prop*	$11.21	11.80xd	...	—
NC Prop.*	185.0	194.8	...	—

*Unauthorised Unit Trusts.

Rowan Unit Trust Mngt. (a)
1 Finsbury Av, London, EC2M 2PA. 01-606 1066

American May 30	193.5	197.5	...	1.55
Securities May 28	569.0	589.0	...	2.31
High Yield May 24	130.0	133.5xd	...	5.89
Merlin May 29	274.0	282.0	...	1.91
Fixed Interest	147.5	148.5	+1.0	2.92

TSB Unit Trusts (b) (c) (y)
PO Box 3, Keens Hse, Andover, Hants, SP10 1PG
0264 62188. Dealings to 0264 63432-3

TSB American	96.3	102.5	-1.1	1.21
Do. Accum.	99.1	105.5	-1.1	1.21
TSB Extra Income	86.9	92.5	+0.4	6.06
Do. Accum.	96.8	103.0	+0.5	6.06
TSB General	121.0	128.7	+1.4	3.27
Do. Accum.	192.0	205.3	+2.2	3.27
TSB Gilt & Fxd Int.	46.6	48.6xd	+0.3	9.80
Do. Accum.	36.3	38.7	+0.4	9.80
TSB Income	161.1	171.6xd	+1.7	4.95
Do. Accum.	243.0	258.6	+2.2	4.95
TSB Pacific	105.7	112.5	-1.7	1.10
Do. Accum.	107.5	114.4	-1.1	1.10
TSB International	227.1	241.7xd	-1.4	1.91
Do. Accum.	276.4	294.1	-1.8	1.91
Natural Resources	47.3	50.4	-0.3	2.56
Do. Accum.	47.8	50.9	-0.3	2.56
TSB Sictd. Opps.	48.0	51.1	+0.3	2.41
Do. Accum.	51.7	55.0	+0.4	2.41

3i & Target Fund Mgrs Ltd
Target House, Gatehouse Road, Aylesbury, Bucks Aylesbury (0296) 5941

Small Co's Fund	71.9	76.9xd		0.10

Target Trust Mngrs. Ltd. (a)(g)
Target Hse, Gatehse. Rd, Aylesbury Bks (0296) 5941

American Eagle	68.8	73.6xd	-0.6	0.19
Australia	37.6	29.4	-0.3	0.10
Commodity	99.9	107.4	-1.0	1.55
Energy	47.2	50.5		0.65
Equity	102.3	109.1	+0.3	3.69
European Spec. Sits.	49.8	53.3	+0.2	0.94
Extra Income	91.4	47.8	...	7.22
Financial	202.1	215.6xd	+0.4	2.96
Gilt Capital	212.9	222.9	+1.2	3.25
Gilt Income	101.6	106.4xd	+0.8	9.14
Gold Income	65.2	69.7xd	.	4.11
Gold Acc.	117.8	126.0	-0.1	4.11
Income	59.7	64.2xd	+0.2	5.83
Japan	43.9	46.8	-1.6	0.10
Malaysia & Singapore	27.5	29.3	-0.3	0.91
Pacific Income	69.0	73.8	-1.2	1.04
Pacific Re Inv.	83.6	89.4	-1.6	1.04
Preference Share	15.6	16.8	.	10.29
Professional	493.2	526.1	+2.7	1.96
Special Sits	88.1	94.3	-0.1	1.83
Technology	42.3	45.3	-0.3	0.1
U.S. Special Bond	49.1	52.5	-0.5	6.33
Worldwide Capital	111.9	119.4	-0.5	1.79
Equity Exempt May 29	629.9	671.9xd	.	2.50
Equity Ex Acc May 29	1157.8	1235.0	.	2.50

Temple Bar Unit Trust Mgrs Ltd
Electra Hse, Temple Pl, Vic Emb, WC2. 836 7766

Electra Small Cos. Fd.	125.80	132.72	+2.30	3.78
High Income	41.4	44.4xd		7.61
North American	107.5	114.4	.	0.67
Recovery	118.1	125.6xd	...	3.94
Gilt Trust	36.9	38.2xd	...	9.98
St Vincent U.S. Grth	70.2	73.3	...	0.84
St. Vincent High Inc	66.0	70.1	...	6.24

Touche, Remnant Unit Trust Mngt, Ltd.
Mermaid Hse, 2 Puddle Dock, EC4. 01-248 1250

TR American Growth	26.7	28.7	+0.1	0.29
TR General Growth	39.0	41.4	+0.2	2.46
TR Global Tech.	28.8	30.7xd	-0.1	0.10
TR Income Growth	44.3	47.7	+0.2	5.06
TR Income Monthly	39.1	41.7xd	+0.3	7.38
TR Overseas Growth	34.2	36.4xd	-0.5	2.75
TR Smaller Cos	40.3	42.9		1.92
TR Special Ops	42.6	45.8	+0.1	1.26

Trades Union Unit Trust Managers
100, Wood Street, EC2. 01-628 8011

TUUT June 1	134.5	141.6	+7.4	3.59

Transatlantic and Gen. Secs. (c) (y)
91-99, New London Rd., Chelmsford. 0245-51651

Colemco May 31	372.5	389.5	...	4.20
(Accum. Units)	594.0	621.9	...	4.20
Fielding Fd May 30	191.6	205.5	...	3.61
(Accum. Units)	208.0	223.1	...	3.61
Fielding Inc May 30	134.8	145.0	...	5.48
Fielding All&Gen May 30	208.2	220.6	...	2.29
(Accum. Units)	234.1	248.1	...	2.23
S&W American May 22	139.3	146.4xd	...	2.71

INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

Arbuthnot Securities (C.I.) Ltd. (a)(c)(x)
P.O. Box 428, St Helier, Jersey. 0534 76077

Dollar Income Tst (z)	1.059	1.109	+0.009	10.82
Gov't Secs. Tst.	72.0	76.3	+0.5	13.11
Yen Bond*	Y200	210		5.71
Sterling Fxd	179.5	179.6		
Japan Growth*	220.6	237.2		0.42

Next dealing *June 6. ‡June 3.

Aries Fund Managers Ltd.
PO Box 443, St Helier, Jersey 0534 75141

Dollar Fund	$10.40	10.43		
Sterling Fxd Interest	£9.79	9.74		9.66

B.I.A. Bond Investments AG
10, Baarerstrasse CH6301, Zug, Switzerland
Baer Sit April 19 ... SF10 925 11,500

Julius Baer Bank & Trust Co Ltd
Butterfield House, Grand Cayman
Lugano J. Baer SFd. ... $1,314 1,315

Bamford Brandt Guernsey Mngt. Ltd.
PO Box 71, St Peter Port, Guernsey 0481 26541

Tech and Comm.	£7.69	8.16
Int. Growth	$15.01	15.86
Pac. Basin Fund	$26.29	27.91

Bank of America International S.A.
35 Boulevard Royal, Luxembourg GD
Worldinvest Inc. ... $122.61 123.23 +0.78 8.95
Valued weekly on Wednesdays

Bank of Scotland
4 Don Rd, St. Helier, Jersey. 0534 38895
Man Mkt Chq Acc Jersey ... 12.05

Barclays Isle of Man Prime Account
PO Box 9, Douglas, IoM 0624 29331
High int. chq ... 12.25

Barclays Unicorn International

CBC Trust Company (Jersey) Ltd.
1-3 Seale St, St Helier, Jersey. 0534-36331

International Income Fund

US$ Dep Shares A	$1.4765	+0.0001	9.66
Do. Dist	$2.021	+0.0009	9.66
Mod.Cur.Stl term B.	$1.3469	+0.0107	8.00
Do. Dist	$0.8752	+0.0081	8.00
Eurobd.Long Term	$22.01		10.80

European Banking Traded Currency Fund*

Income	$9.60	9.908	+0.103	8.26
Capital	$10.60	10.920	+0.103	8.26

Sterling Prices Indication Only

Income	7.41	7.640	+0.048	8.26
Capital	8.18	8.435	-0.062	8.26

*Offer price includes 3% prelim. charge.

The English Association
16 Athol St, Douglas, Isle of Man 0624 20738
E.A. Far East ... $10 7 10.90
Next dealing June 10.

Ermitage Management Ltd.
19 Royal Square, St Helier, Jersey, CI. 0534 76007

Comrad Fund	$18.73	18.92	
Bond & Cash Fd	£9.91	9.91	6.25
Cash Fund	£20.20		

Ermitage Management Cayman Ltd.
PO Box 2192, Grand Cayman, B.W.I.

Gas Ermitage	$14.26
Cayman Cash Fd	$10.28

S.G. Europe Obligations S.A.
9, Avenue de la Liberte, Luxembourg
London Agent: FFS, Salisbury House, London Wall EC2M 5TA. Tel. 01-920 0776 Telex 887282
Europe-Obligations ... $43.86 1.23

Hambros Fd. Mgrs. (C.I.) Ltd.
PO Box 86, Guernsey. 0481-26521

C.I. Fund	491.9	523.9	2.58
Special Sits. Fund	190.2	200.3	1.67
Sterling Income Fund	106.6	111.3	10.80
Dollar Income Fund	$1.054	1.103	10.90
Intnl. Bond	$104.05	109.60	9.43
Int. Equity	$24.28	25.54	0.72
Amer Spec Accs.	$1.06	1.12	
Amer Equity Inc.	$1.7	64.9	6.3
Savings Fund A	$1.94	2.04	
Savings Fund B	$2.63	2.77	
American Growth	$4.82	5.08	

Currency Fund

Sterling Shares	£19.62	19.63	12.64
U.S. $ Shares	$16.19	16.20	7.56
DM Shares	DM41.63	41.64	4.17
Swiss Francs	SF30.52	30.53	3.00
Yen Shares	Y3,139	3,140	5.86

Managed Shares

Sterling Shares	£10.40	10.83	12.94
U.S. $ Shares	$15.41	16.03	7.93

Currency Distributor Fund

Sterling Shares	£10.47	10.48	12.55
U.S. $ Shares	$15.42	15.43	7.56
DM Shares	DM40.59	40.60	5.05
Swiss Franc Shares	SF30.18	30.19	3.00
Yen Shares	Y3,054	3,056	5.86

Managed Shares

Sterling shares	£10.04	10.46	12.40
U.S. $ Shares	$14.89	15.49	7.56

Hellerup Scandinavian Fund Ltd.
Tynwald House, Douglas, IoM. 0624 24111
Scandinavian Fd May 29 ... 93.7 99.60

Henderson Admin. (Guernsey)
PO Box 71, St Peter Port, Guernsey 0481 26541

M & G (Cayman) Ltd.
P.O. Box 706, Cardinal Avenue, Grand Cayman, BWI

Atlantic Ex May 28	$8.68	9.24	
Australian Ex May 29	$3.16	3.37	
Gold Ex May 29	$35.02	37.66	1.33
(Accum Units)	$57.23	61.54	1.33
Island	254.2	268.4	2.36
(Accum Units)	610.4	644.4	2.36

Man International Futures
Sugar Quay, Lower Thames St. London, EC3 01-626 8788 Telex 885431 New York 212 912 8700
MINT Ltd. (Bermuda) ... 311.79

Management International Ltd
Bk of Bermuda Bldgs, Bermuda. 809-295 4000

Bda IBFC	18.98	19.18
Bda IBFI	10.98	11.10

Prices at May 10. Next dealing May 17.

Bda IEFC	9.90	10.10
Bda IEFI	9.54	9.74

Prices at May 15. Next dealing May 29
Bda ICF US/Mgd.

Manufacturers Hanover Geofunds
PO Box 92, St Peter Port, Guernsey. 0481-23961

Curr Bdt.	£10.33	10.85
LA Inc	$106.28	106.50
LA Accg	$148.50	148.80
IRL Managed		$10.316

Euro Bonds daily other weekly.

Midland Bank Tst. Corp. (Jersey) Ltd.
28-34, Hill St, St Helier, Jersey. 0534 72156

Mid. Bk. D'share Gilt	102.5	102.9	+0.3	11.46
Mid. Bk. Int. Bond	$1.06	1.08		7.41

Minerals, Oils Res. Shrs. Fd. Inc.
PO Box 194, St. Helier, Jersey. 0534 27441
Mares May 30 ... $11.73 12.09 2.80

Money Market Trust Funds

Money Market Bank Accounts

OFFSHORE AND OVERSEAS

COMMODITIES AND AGRICULTURE

Dairy mountain heads for rise despite Soviet sale

BY IVO DAWNAY IN BRUSSELS

OVER-PRODUCTION of milk in the European Community appears to be accelerating again, and the EEC's dairy mountain looks set to rise after the substantial reduction to be achieved by a large cut-priced sale of butter to the Soviet Union later this month.

The EEC's sale of 380,000 tonnes of butter to the Soviets on special terms was given the go-ahead at a meeting of tha International Dairy Council last Friday. European Commission officials expect this to make a sizeable dent in the butter mountain.

Last month total public and private stocks again surpassed 1m tonnes, despite cut-priced sales of 120,000 tonnes of old butter to the ice cream and pastry industries.

Officials are expecting a cootinued rise in production over the coming months as lush, early summer pastures increase milk yields.

The West German farm trade agency ZMP estimates that on present trends, milk deliveries will exceed the total production quota for 1985-86 by the end of the calendar year, a full three months before the end of the milk year.

According to ZMP, deliveries in the first quarter were 6.8 per cent down on the same period of last year, when no efforts to cut production had begun. But it expects total output by he end of the calendar year to be between 98m and 98.5m tonnes, compared with the 98.1m tonne-ceiling fixed for production for the year ending next March.

This projection is bound to worry the Commission and farm ministers sucb as Britain'a Mr Michael Jopling, who bas been warning recentl ythat output is still more than 13 per cent ebove consumption in the EEC despite quotas.

The Commission says current stocks in public stores stand at 955,784 tonnes, with a further 51,728 tonnes in private stores.

There is still some optimism that potential Community yields wil be cut back by continued cow-culling in West Germany and by a large uptake of tbe German outgoers' scheme, under whicb dairy farmers are paid to quit milk production.

But doubts remain over the ability of the superlevy to act as an effective deterent to overproduction. Revisions adopted by farm ministers alst month have removed the immediacy of the milk tax from the individual farmer, with national qootas allowing some exces producers to escape without penalty.

The temptation for some may consequently be to ignore their quotas altogether in the hope that other dairies will fall ahort of their ceilings.

Discord over U.S. export plan

BY NANCY DUNNE IN WASHINGTON

THE AGRICULTURAL export subsidy programme announced last month by Mr John Block, the U.S. Agriculture Secretary, is so controversial both within and outside the U.S. government that top officials bave been unable to agree on the details of the scheme.

In his announcement of a programme aimed at markets obtained through "unfair trading practices" Mr Block promised that the design of the programme would be made public by June 1. While officials have reportedly drawn up a *list* of 20 to 27 countries in the Middle East and Africa which could receive "bonus" commodities from U.S. government stocks, they have been unable to reach final agreement.

"There is a lot of scrapping going on within the Department," said one trade observer.

It is believed that Secretary Block wants bonuses given with the sale of wbeat, wbeat-flour and poultry—those commodities in which the trade competition is hot and fierce. The bonus crops, however, may be drawn from stocks of maize, and rice as well as wbeat. There is even less agreement about the programme outside of the department. *The* EEC bas objected bitterly and Mr George Schultz, the Secretary of State, is opposed to the scheme.

Trade officials and many legislators want a broad based plan so that no U.S. customer is denied bonuses.

They say a now suspended subsidised credit programme, which was aimed et EEC markets, angered the Koreans, who were denied credit and began buying grain from Thailand and China.

The bonus programme was actually forced on Mr Block during the negotiations over the Senate budget. However it was reported to be the Secretary himself wbo insisted on a tergeted programme, fearing that a broad based scheme would interfere with bis efforts to get lower support prices in the 1985 farm bill by in effect lowering prices through subsidies.

Althougb the scheme is aimed at the EEC, the Australians are worried that they will lose significant grain sales when the programme is implemented. They believe it will have a depressing effect on the market and that wheat prices could drop $15 to $20 a ton.

Australia can meet that price but its traders say they cannot offer the extended credit terms offered by the U.S. *in many of its markets*. They also worry that displaced EEC grain accompanied by subsidies will be dumped on Australian markets.

In Sydney the Australian Wheat Board complained that Australia could lose hundreds of millions of dollars of export revenue during the next *two* years because of trade friction between the U.S. and the EEC, reports AP-Dow Jones.

"Huge stockpiles of wheat on both sides of the Atlantic and mounting aubsidy costs to their *farmers* mean that both EEC and U.S. administrations intend attacking each other's markets in a price cutting war," warned *Sir Leslie Price*, the Board's chairman.

He said the fact that the EEC and the U.S. controlled about 60 per cent of the world market between them meant that any price cutting must necessarily affect the price of Australian wheat, which bas a 14 per cent world market share. Estimates of e 25 per cent reduction in world prices were already being made, be added.

● The U.S. is considering including soyabeans and soya products in the grains agreement with the Soviet Union, reports Reuter. Mr Steven D. Yoder, head analyst of U.S. Department of Agriculture's oilseeds and products division, said the American Soybean Association (ASA) had urged the inclusion of soyabeans and products in the deal.

Base metals show falls as stocks increase

By Our Commodities Staff

ZINC, COPPER and tin prices fell on the London Metal Exchange yesterday following news of a rise in warehouse stocks of the three metals over the last week.

The biggest reported rise in stocks was for zinc, the cash price of which consequently fell a further £2.50 per tonne on the day to a seven-month low of £594. Dealers said the market continued to be depressed by a lack of buying interest.

Copper continued the slide initiated last week, with the cash price closing £9 per tonne down at £1,112.50 and the three-month premium widening to £9. It has already lost nearly £80 a tonne since last Tuesday, and as tbe market heads into the slack summer period the chances are that it will fall further, dealers say.

Tin closed £25 per tonne down at £9,455, with sopport from the International Tin Organisation bufferstock manager preventing it from dropping further.

LONDON METAL EXCHANGE WAREHOUSE STOCKS

(Changes during week ending May 31)

			tonnes
Aluminium	−1,375	to	100,325
Copper	+400	to	105,075
Lead	+225	to	35,000
Nickel	−24	to	5,220
Tin	+740	to	21,885
Zinc	+2,250	to	42,450
			ounces
Silver	−596,000	to	50,570,000

London tea sale

QUALITY GRADE tea was quoted at a nominal price of 250p a kilo at yesterday's weekly London auction, up from a nominal 195p a kilo at the previous sale on May 20. Average prices realised for medium and low grade teas were unchanged at 160p and 118p a kilo respectively.

The Tea Brokers' Association of London said brighter Assams were well supported and dearer but plainer sorts were irregular. Demand was also good for bright Africans, which gained 10p to 15p a kilo, but again plainer offerings met poorer demand.

The association described demand for offshore teas as "very fair" with prices irregular but sometimes dearer.

Farmer's Viewpoint by **John Cherrington**

Recovering from a late spring

I NORMALLLY inspect my farm at least once and often twice a week. If I see it more often the subtle changes which come over the growing crops and the stock are not readily visible. The pigs though ere seen every day during feeding. In this case the surest indication of something amiss is when one of them does not come to the trough. The nrinciple cannot be applied to sheep, ruminant animals which spend a good deal of time chewing the cud between grazing periods.

This spring these inspections were pretty depressing. There was little grass growth until about a *fortnight ago* and my ewes and lambs were being fed. If I walked or drove through a flock the ewes would come up to see if another bag of nuts was going to come their way. This is an expensive process with animals which should be getting the whole of their living from well fertilised grass. But no grass grew at all in April and very little until about the middle of May.

Sheep usually do best on very tight grazing indeed bnt it is important to see that the grass is actually growing so that even if it is short the animals are getting grass of the highest quality. There was vestigial growth early last month bnt had I not been feeding the ewes there would not have been enough to maintain the milk supply. Even with the extra feed there was a decided lack of bloom about the lambs, their coats were becoming dull and they may not fetten as well as I would have hoped.

A fortnight ago, however, we had nearly an inch of rain and, better still, a warmer temperature. In most of the fields tbe grass was gaining against the sheep. They looked rather more comfortable and no longer chased tbe Landrover when it was going along the road. During Whitsun I made a very thorough inspection and for the first time this year I could see the lambs were enjoying their surroundings. Instead of creeping hump-backed after their mothers, they were lying outstretched in the sun growing visibly, and their coats were beginning to shine.

But they will be much later getting fit for sale, probably three weeks later than last year. This is a serious matter. From about the middle of May the guide price under the EEC sheepmeat regime tumbles at a rate of 6p a kilo every week. It is a matter of fine judgement whether to sell them light or gamble that they will increase in weight at the rete of a half a kilo a week, which they would have to do to be worth keeping.

On my previous walks I had not really looked at the cereals —it was all too epressing. Mocb of tbe autumn sown wheat had great gaps in the rows. It looked as though there was hardly enough plant population to make a crop. The winter barley was nice and thick but had no growth at all and looked as though it would come into ear about 6 ins above the ground. Spring barley had come up quite well but then stopped growing altogether. The only promising crop was a small area of spring sown oats, which rather like difficult conditions.

The only plus mark was the fact that there were few weeds and very little sign of the fungus diseases which usually plague us. They were probably too cold to germinate or reproduce. It looked like a March landscape. But it does no longer.

In a fortnight the nitrogen poured on the wheat must have taken hold and the crop has thickened up remarkably. The gaps have miraculously been filled by fresh tiller and it has taken on that good dark colour which shows plant health and ample nutrition. Autumn-sown barley now looks as well as it ever has and because it has been kept short by earlier growing conditions may well not suffer from lodging (laying over) if there is a lot of rain.

The spring barley is also doing very well and still resisting the diseases which greatly reduced yields of one variety last year.

The only question-mark at the moment is on the peas. These germinated and came np well and then seemed to stand still for about a month. During this time they were attacked by pigeons and a nasty sounding insect called a thrip.

The peas, a variety grown under EEC guarantee, are harvested dry and can be used for human or animal feed. They are a tricky crop and their yeild bears no relation to their appearance when growing. I only grow them in an attempt to diversify from wheat and barley which are in oversupply in the EEC.

The same applies to seed crops, in my case turnips and broad beans. The turnips are autumn-planted and formed the bulbs before the frosts really struck. This lifted them out of the ground to which they were attached by some very thin roots. They recovered, however, and I am hopeful that the roots will not break off as the plants get taller.

The broad beans could well be a disaster. They came up spasmodically, were dug up by birds of all sorts and the leaves are a great temptation to hares as they are to thrips and weevils. The cures for these ills, bird scarers for instance, are expensive and unpopular with neighbours and the damage will probably wipe out any profit.

The path of the righteous is difficult and frequently leads to catastrophe. I should have just drilled barley and put it in intervention.

Malaysian warning about rubber surplus

BY WONG SULONG IN KUALA LUMPUR

MALAYSIA HAS warned of a collapse in the price of rubber unless producing countries slow *down production* to *match* demand.

The warning came from the Malaysian Minister of Primary Industries, Datuk Paul Leong, who said while world demand for natural rubber bad only increased marginally in recent years, world production rose by 14 per cent from 3.7m tonnes in 1982 to 4.2m tonnes last year.

Datuk Leong said Malaysia, which is the world's biggest rubber prodncer, recorded no increase in output during the past five years, and outpnt fell by two per cent to 1.53m tonnes last year.

However, production from neighbouring Indonesia and Thailand rose substantially, *while China, India and Brazil* also increased output.

The Malaysian Minister said there was already a heavy overhang in the market in the form of 275,000 tonnes of surplus rubber acquired by the buffer *stock manager* (bsm) of the International Natural Rubber Organisation (INRO).

Datuk Leong's warning is based on two fears—one immediate, the other medium term.

First, tbe wintering season, during which rubber outpnt usually falls by as much as 30 to 40 per cent of normal production, is over, without any appreciable impact on prices, which are currently just above the buffer stock manager's "may buy" level of 176 Malaysian/Singaporean cents a kilo.

With supplies now returning to normal, prices might take a tumble, putting new pressures on the bsm.

Secondly, with the assurance of plentiful supplies in the medium term, dne to the rapid rate of replanting and new planting by Indonesia and Thailand, and a large buffer stockpile, consumer nations in the International Natural Rubber Agreement (INRA) might be encouraged to take the view that the agreement no longer serves their interests.

Such a view would make renegotiation for a second INRA more difficult. Already, some consumer countries have complained of the high cost of financing the buffer stockpile.

INRO's governing council is due to start a meeting in Kuala Lumpur on Thursday to consider extending the existing rubber accord, in the absence of agreement on a new pact, and appointing a new buffer stock manager.

Call to boost producers' prices

GENEVA — Mr Alister McIntyre, acting bead of the UN Conference on Trade and Development (Unctad) has called for new efforts to help boost depressed world commodity prices.

He told a meeting of Unctad's commodities committee, called to assess how international commodity pacts help stabilise prices, that weak prices had seriously harmed third world producers for whom raw materials were a main source of earnings.

He cited sugar as an example, saying its nominal price in dollars was the lowest in 15 years and its real price was below any other recorded over the post-war period... Reuter

FOREIGN EXCHANGES

Dollar closes above worst

The dollar lost ground in thin foreign exchange trading, but finished well above the day's low of DM 3.0290. The entry of New York into the market brought about a strong improvement in the U.S. currency. It rose to nearly DM 3.06 from DM 3.0380 in about a half hour on short covering in a thin market. The prospect of lower U.S. interest rates, after recent disappointing economic data, initially depressed the dollar, but the recovery was largely brought about by covering of positions in a thin market, as dealers began to suspect the currency was not going to fall below DM 3.03 again. A rise of 1 per cent in U.S. April construction spending also gave the dollar a boost, following expectations of an increase in the region of 0.6 per cent.

The dollar fell to DM 3.0450 from DM 3.0565; FFr 9.29 from FFr 9.32; SwFr 2.5620 from SwFr 2.5725; Y248.80 from Y251.15; Fl 3.4330 from Fl 3.4510; L1,947.50 from L1,951.50; and BFr 61.35 from BFr 61.55.

On Bank of England figures the dollar's index fell to 144.7 from 145.3.

STERLING — Trading range against the dollar in 1985 is 1.2940 to 1.0525. April average 1.2414. Exchange rate index rose 0.2 to 80.5, after opening at 80.7.

Sterling was strong, continuing to benefit from high London interest rates and the movement of funds away from the dollar. There was little sign of nervousness ahead of today's UK money supply figures, despite recent speculation that a sharp improvement from the very disappointing April figures will bring a cut in clearing bank base rates. The pound gained 80 points to $1.2940-1.2950, and also rose to DM 3.9475 from DM 3.9325, and FFr 12.0150 from FFr 12.0075, but was unchanged at SwFr 3.3150 and fell to Y321.25 from Y323.

D-MARK — Trading range against the dollar in 1985 is 3.4510 to 2.8730. April average 3.0856. Exchange rate index 122.0 against 120.5 six months ago.

The D-mark improved against the dollar in Frankfurt after last week's economic statistics which tended to support speculation that U.S. growth is not picking up as quickly as expected in the present quarter. The fall of 0.5 per cent in U.S. factory goods orders and a trade deficit of $11.9bn were considered particularly disappointing.

MONEY MARKETS

Interest rates were easier in London yesterday, helped by sterling's stronger performance. However the market is divided ahead of today's UK money supply figures and the prospects of a cut in clearing bank base rates appear largely to depend on these figures. Three-month interbank money eased to 12 7/16 per cent from 12½ per cent while three-month eligible bank bills were bid at 11 13/16-11¾ per cent compared with 11 15/16 per cent. Overnight interbank money opened at 12⅝-12¾ per cent and eased to 12 per cent before finishing bid at 20 per cent.

UK clearing banks base lending rate 12¾-12¾ per cent since April 19.

The Bank of England forecast a shortage of around £950m with factors affecting the market including £1,274m through maturing assistance and a take-up of Treasury bills. This was partly offset by Exchequer transactions adding £20m and a fall in the note circulation of £305m. In addition banks brought forward balances £10m above target. To help alleviate the shortage the Bank offered an early round of assistance and this totalled £3m and comprised purchases of eligible bank bills in band 1 (up to 14 days) at 12⅜ per cent.

Further help in the morning came to £203m and comprised purchases of £1m of eligible bank bills in band 1 at 12⅜ per cent and £25m in band 2 (15-33 days) at 12¼ per cent. It also arranged sale and repurchase agreements of £177m at 12¼ per cent, unwinding on July 1. The forecast was later revised to a shortage of £1,000m before taking into account the early help.

In the afternoon the Bank revised the shortage back to £950m and the Bank gave further assistance in the afternoon of £531m and late help of £50m, making a total of £787m. The afternoon help comprised purchases of £2m of eligible bank bills in band 1 at 12⅜ per cent, £43m in band 2 at 12¼ per cent and £9m in band 3 at 12¼ per cent. It also arranged sale and repurchase agreements on £132m of bills at 12¼ per cent, unwinding on July 1 and £345m at 12¼ per cent, unwinding on June 12.

Sterling certificates of deposit were marked down with three-month CDs quoted at 12¼ per cent compared with 12 7/16 per cent and the six-month rate easing to 11 15/16 per cent from 12⅛ per cent. Treasury bill rates were a little easier with one month bills at 12 3/32-12¼ per cent from 12 5/16 per cent and three-month at 11¾ per cent from 11 15/16 per cent.

GOLD

Gold closed unchanged at $315¾-316¼ on the London bullion market yesterday. It opened at $317-317½, and touched a peak of $318¾-319¼ and a low of $313¾-$314. A gradual improvement by the dollar during the day pushed gold down from its peak.

FINANCIAL FUTURES

Euro-dollar prices were firmer in the London International Financial Futures Exchange. Values started on a firmer note with a strong close in Chicago encouraging good initial buying. Some selling developed at the higher levels but this encouraged further buying until the opening of Chicago. Prices were marked down for a time, but continued bullish sentiment prompted further interest despite a slightly higher Federal funds rate. Once again the market was hopeful of a further reduction in cash rates, anticipating continued action by the Federal authorities to stimulate what appears to be a slow down in U.S. economic growth. A rise of 0.1 per cent in U.S. construction spending was a little more than expected but failed to have any significant effect.

Sterling based futures were helped by sterling's firmer trend against the dollar and a small decline in cash rates. However much will depend on today's UK money supply figures. The prospect of an early reduction in UK clearing bank base rates appears largely to rest on a fairly modest increase in M3 today compared with last months sharp rise.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 3)

3 months U.S. dollars	
bid 7 9/16	offer 7 11/16
6 months U.S. dollars	
bid 7 3/4	offer 7 7/8

The fixing rates are the arithmetic means, rounded to the nearest one sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Continued from Page 34

Stock		Sales (Hnds)	High	Low	Last	Chng
Keypro		65	2¾	2⅝	2⅝	
Keane	.20	4	17¼	17¼	17¼	+½
vjKelyJ		28	7-16	5-16	7-16	+⅛
KellyS A	.64	41	42	40½	41½	+1
KellyS B	.52	11	46	45	46	−½
Kemp	1.80	367	58⅞	55⅞	55⅞	−⅝
Kencop		3	4⅛	4⅛	4⅛	−¼
Kengtn		4	10¾	10¾	10¾	
KyCnLf	.90	6	41¼	41¼	41¼	
Kevlin		12	5¾	5⅝	5¾	
KewnS s	.44	5	13½	13⅛	13½	
KeyTrn		306	7⅞	7¾	7⅞	
KeysFn	1	68	22½	21¾	22	−½
Kimbal	.54	16	30¾	30¼	30¼	−½
Kimbrk		4	5	5	3	
Kincaid		13	7¼	7¼	7¼	
Kinder s	.06	2099	20⅛	19⅝	20	+⅝
KlosVd		28	5⅛	5	5⅛	−¼
Kroy	.06	72	7¼	6¾	6¾	−¼
Kruger	.52	306	18½	18¼	18¼	−⅛
Kulcke	.16	546	18½	13⅜	13½	−⅛
KustEl		2	6½	6½	6½	−⅛
L						
LCS s		31	8¾	8	8½	
LDBrnk		21	7⅞	7⅞	7⅞	−⅛

Stock		Sales (Hnds)	High	Low	Last	Chng
LinBrd		1897	30⅝	29⅝	30¼	+½
LincTel	2.20	4	32½	32½	32½	
Lindbrg	.16	6	5⅛	5⅛	5⅛	
LinerCp		3	5¼	5	5¼	
LiqBox	.72	31	51	49½	31	+2
LiqdAir	1.60	16	23⅝	23	23½	+⅝
LizCla s	.35	1816	45¾	44¾	45½	+¾
LoanA		1	14½	14½	14½	−½
LocalF	.15e	140	17¼	17	17¼	+⅛
LondnH		4	8½	8½	8½	+½
LongF	1.28	94	25	24½	25	+¼
Lotus		996	30¼	29¼	29½	−½
LaBnch	.68	1	18	18	18	+¼
Lyndon		6	25¾	25¾	25¾	
Lypho s		629	21⅛	20⅞	20⅞	−⅛
M						
MARC		876	19	18¼	10¼	−¼
MCI		119769		8⅝	8¾	−⅛
MIW		12	7¼	7¼	7¼	
MTV		144	26½	26¼	26½	+⅛
MachTc		14	6½	6⅜	6½	
MackTr		2882	10⅞	13½	10¾	+⅛
MadGE	2.20	29	26½	26⅜	26⅜	−⅛
MagmP		155	10⅛	9¾	10⅛	+¼
MagBk		65	21¾	20½	91	−½
MagGp	.68	47	13	12¾	12¾	−¼
MajRt		29	8¾	8⅝	8⅝	−⅛
Malrite	.01e	118	17¼	17	17	
MgtSci		1260	14½	14⅜	14⅜	
Manitw	.80	87	22½	22¼	22¼	
ManfH s		41	24½	23¾	23¾	−¼
MfrsN	2	26	57¾	57½	57¾	+¼
Marcus	.28a	40	18¼	18⅛	18⅛	−⅛
Margux		20	7⅝	7⅝	7⅝	−¼
MarmC s	1.40	64	32¾	32	32¾	+¾
MTwain	.80	28	20¼	19¾	20¼	+½

SECTION IV

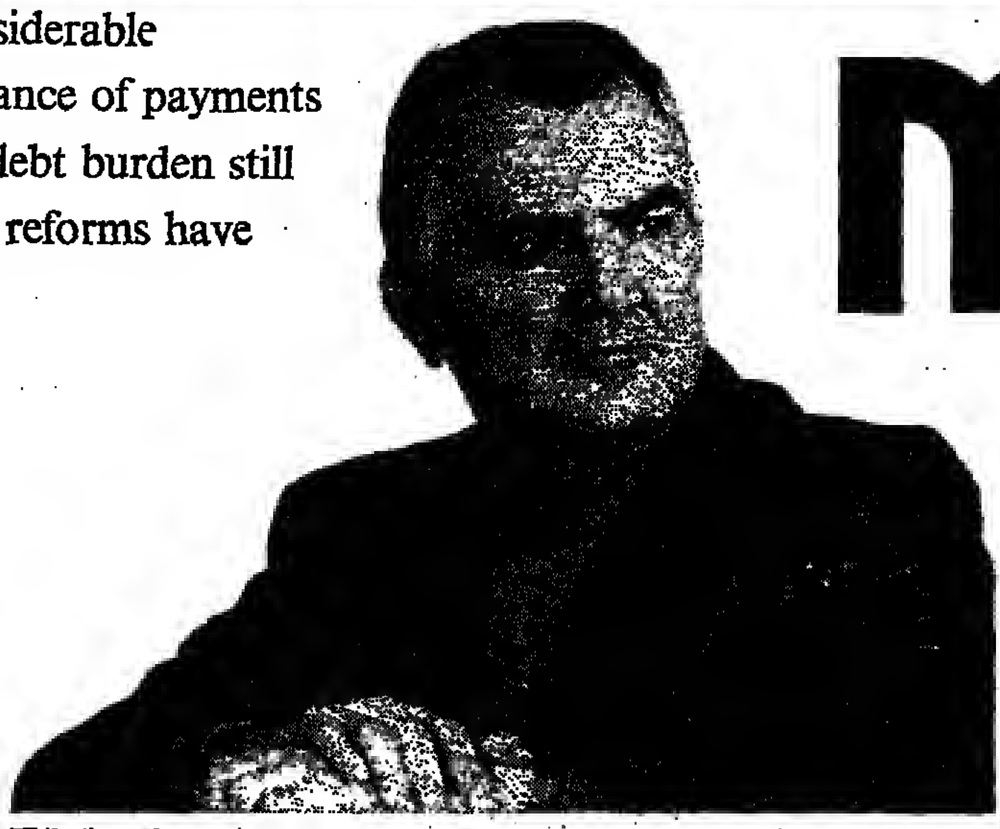
FINANCIAL TIMES SURVEY

MEXICO

The government has achieved a considerable economic turnround, putting the balance of payments into surplus. However, the foreign debt burden still looms and many social and political reforms have yet to be carried out.

Convalescing in a purer climate

By ROBERT GRAHAM, Latin America Editor



● President Miguel de la Madrid: technocratic and conservative style

MEXICO, THE toast of international bankers for coping with its debt crisis, is far from boasting about the achievement. The most that Sr Jesus Silva Herzog, the Finance Minister, will admit is that Mexico has been removed from "intensive care" but the country is still convalescing.

The debt issue remains like the rattlesnake in Mexico's emblem: the snake is squirming in the beak of an eagle and still seems capable of striking.

Since 1982, when the debt crisis broke, Mexico has staged a quicker and more far-reaching economic turnround than any other Latin American debtor. Embracing the orthodoxy of the International Monetary Fund, public spending has been pruned, wages kept under tight control and inflation brought down.

The balance of payments has swung from deficit to modest surplus making Mexico the first debtor to restructure the bulk of its debt. For a country with a 75m population, and the twelfth-largest economy in the non-Communist world, this is e considerable achievement.

The hardest part, however, lies ahead — regenerating sustained growth and meeting obligations on a foreign debt which now totals $96bn. This is why no one in Mexico is complacent.

The high-spending boom days of the Lopez Portillo administration were less than three years ago, but they now seem a distant era. Up and down the country Government buildings and private offices attest like museum pieces to the extraordinary, almost absurd luxury of this period, when oil revenues swelled and international credit was limitless.

Symbolic of the change is a new institutinn created by President Miguel de la Madrid which is part nmbudsman, part a beefed-up comptroller general's office, that has taken over what was intended as a stylish shopping centre. The institution's main job is "moral renewal," to clamp down on waste and corruption, the two most flagrant abuses of the previous administration.

In one sense it was easier for President de la Madrid to ring the changes on the back of a profoundly discredited Presidency. Indeed, President de la Madrid's critics feel he could have gained more political capital and greater room for manoeuvre by heaping all the blame fer the crisis on his predecessor.

While the scale of tha Lopez Portillo family's personal enrichment and the general abuse of office was unprecedented, President de la Madrid resisted the temptation. The exercise risked being highly disruptive because the Presidency is an office chosen from within cabals of the official Partido Revolucionarin Institucional (PRI).

An attack on the Presidency is in effect an attack on the whole system that is controlled by the PRI machine. Moreover, many of the key figures in the present Government played nrominent roles under Sr. Lopez Portillo including the President as Planning Minister.

Prestige

President de la Madrid has adopted a technocratic and conservative style of Government, looking more at home as an edministrator than a politician. By doing away with ostentation and scrupulously cultivating an image of honesty, prestige has been restored to the Presidency which holds such absolute power, for a single six-year term.

However, the semi-institutionalised links between the Government and the PRI, that lie at the heart of the uniquely Mexican system of power, have not altered. Tha PRI machinery bas been harnessed to assist the Government's austerity programme.

In the short term political and social stability has been assured in a bighly disciplined manner. But this dependence on the PRI machinery has limited the nature of the reforms being carried out precisely because the party is so enmeshed in the power structure. The economic crisis bas if anything, increased the rigidity nf the political system because the PRI apparatus is afraid of losing its privileges.

Fnr instance, nrganised labour is dominated by the PRI and controlled in effect by one man — the legendary union boss 85-year-old Fidel Velasquez ("Don Fidel"). On the basis of his authority, the trades unions have accepted real wage cuts, equivalent to 30 per cent compared with 1982 levels, against the Government's gurantee to maintain employment and continue subsidies on basic foodstuffs and transpert.

This informal deal has been respected by both sides, the latest Government handont having been announced nn May Day with a new package of social security measures.

President de la Madrid freely concedes that without this trades union co-operation little could have been achieved.

In return for this unien co-operation the Government has allowed the unions to keep many of their privileges. Nowhere is this more ebvious than with the powerful petroleum workers, who exercise dominant control over the entire oil industry—responsible for 15 per cent of GDP—through restrictive practices.

To bead off potential discontent the Government has been discreetly permitting wages this year to rise more rapidly, and since the last quarter of 1984 has been stimnlating growth. The tactic appears intended to head off discontent in the run up to July's important state and congressional elections. The monolithic control of the PRI is likely nnly to be dented but its authority will be undermined if there is a sizeable vote for opposition candidates.

The opposition, headed by the Right-wing PAN, believes the Gevarnment can only avoid such a situation by large-scale fraud. PRI officials assert the npposition is crying foul in advance.

When ha took office, President de la Madrid appeared willing to open up the political system and allew other parties more space en the grounds that this was the best way te force the PRI to change itself. Yet when the PRI began to lose out in local elections, the conservative element of the party got its way and resorted to the eld "alchemy" of altering the votes.

If such tampering is now repeated in July, the democratic legitimacy of President da la Madrid will itself be damaged beceuse of the Government's inability—or refusal te distance itself from the PRI. In turn, the election will also determina the eutherity of the President fer the remaining three years of his term.

A number ef economic decisions hinge nn the July elections. The sliding devalnatien of the peso against the dellar could well be accelerated, and credit tightened. The Government may also be forced to review its expenditure plans, given the continued overshooting of the budget.

Targets

Although the public sector deficit, has been cut, from the 18 per cent of GDP inherited from the Lopez Portillo Administration to 7 per cent, it is still two points higher than original projections and IMF targets.

Major structural reforms must now follow, liberalising the econemy to lessen the role of the public sector, to remove cotton wool from the private sector, to encourage foreign investment and to stimulate the economy towards nen-oil exports.

Differences of epinien within the Government over the speed and extent of liberalisation have held up progress and creeted considerable confusien, especially in the field of foreign investment and over trade policy, but it appears that the protectienist element is losing the rearguard action it is fighting.

Liberalisatien, quite apart from disturbing the often cosy relatien of the private and public secter, is contrary to much of the rheteric of the Mexican revolution—still an integral part of the Government and the PRI's clothing. It is synonymous with opening np to foreign influence and control whereas the Mexican Revolutinn of 1910 was about Independence. Hence, Mexico has refused to join GATT and avoided Opec membership even though it is the world's fourth-largest oil prodncer and exporter.

There is a visceral fear of U.S. demination. Mexicans do net want the same econemic relationship with their huge neighbour as Canada. Lately this fear has become mixed with distaste fer the Reegan administratien's policies in Central America, so complicating the whole liberalisation debate.

Yet the Mexicans, despite their rhetoric, are pragmatic. President de la Madrid's European tour, which begins this week, will emphasise Mexico's desire te diversify from the U.S. The U.S., however, absorbs 75 per cent of all exports, and all the burgeoning in-bond industry along the border, and accounts for nearly all of Mexico's tourist income.

The U.S. market coupled with that country's commercial pressures are too convenient and too powerful to ignore. It was the U.S. after all which first came to Mexico's rescue when the debt crisis broke.

Balance of payments forecast

(U.S.$bn)	1984	1985	1986	1987	1988
EXPORTS	32.1	33.1	34.0	35.4	36.4
Goods	24.0	24.5	25.0	26.0	26.5
(Oil)	(16.6)				
Tourism	2.0	2.1	2.2	2.3	2.5
In-bond plants	1.1	1.3	1.4	1.4	1.5
Others	5.0	5.2	5.4	5.7	5.9
IMPORTS	28.1	31.4	35.2	37.4	38.9
Goods	11.2	14.5	17.5	19.7	21.6
Interest	11.6	11.4	12.0	11.8	11.2
Others	5.3	5.5	5.7	5.9	6.1
Current account	4.0	1.7	−1.2	−2.0	−2.5
Long-term loans (net)	2.4	1.5	0.7	0.8	0.8
Foreign direct investment	0.3	0.8	0.8	1.0	1.0
Short-term capital	−3.6	−3.0	−0.5	−0.5	−0.5
Net flow (change in reserves)	3.1	1.0	−2.0	−0.7	−1.2
Stock of international reserves	8.1	9.1	7.1	6.4	5.2

Source: Econal.

Tough poll challenge for ruling PRI

Politics

DAVID GARDNER

LATIN AMERICA'S most powerful and best-oiled political machine, the Institutional Revolutionary Party (PRI), next month faces the most serious electoral challenge of its 56-year rule.

As its name suggests, the PRI was put together to institutionalise the rule of the victorious, but fissiparous, 1910-1920 revolutionaries. This was not a case of a party taking power, but of those who had taken power creating a party, in order to put an end to the practice of regional *caudillos*, with armies intact from the revolution, deciding every succession on the battlefield.

Since 1929, the PRI has given Mexico a record of stability unparalleled in Latin America. Deriving its legitimacy from the 1910 revolution (the radical tendencies of which it nevertheless ruthlessly suppressed), it has sought to rule through consensus, gradually opening up its *de facto* one-party state to opposition. There are now eight other legal parties besides the PRI, and a host of other, more or less tolerated groups.

The PRI Government has not, however, flinched from massive repression when it has felt seriously challenged. The best-known recent instance was the student revolt of 1968, put down by an army massacre of some 500 protestors, who had won sympathy among an assertive middle class whose interest was in more democracy.

Even though selective repression has continued since then, the PRI's political nose led it to open the system to the left. Paradoxically, therefore, the challenge it faces next month comes from the Right.

On July 7, mid-term elections take place for congress and seven state governorships, in two of which, Sonora and Nuevo Leon in the more prosperous and Americanized north, the Right-wing National Action Party (PAN), backed by sectors of the business community, stands a good chance of winning.

But in 56 years, the PRI has never allowed itself to lose a governorship, although on two famous occasions it lost the vote. Next month's vote takes place with the ruling party's fortunes at an all-time low, since the decade-long oil and credit binge — and the Left on the corruption and mismanagement that went with it — gave way to two years, and now a third year, of austerity comparable only with the recession of the 1930s.

The PRI's post-revolutionary legitimacy was in large part based on average growth levels of more than 6 per cent, and some effort at redistribution, between 1940-81. July 7 will be the first real opportunity for Mexicans to vote on the 1982 crisis, and the PRI's role in causing it, at a time when the party's capacity to spend its way out of trouble is limited.

At the same time, the PRI is showing signs of advanced middle age and sclerosis. It is, indeed, questionable whether it can any longer be described as a ruling party. The route to power is now increasingly through the federal bureaucracy, with the party getting less and less say in policy.

None of the last three presidents had any contact with electoral politics before being selected by their predecessors, while one informed estimate claims that nearly three-fifths of current government appointees were not even party members when named to their jobs.

The party's attempts to revitalise itself through greater internal democracy—in the hope of throwing up natural leaders to restore its prestige — have been half-hearted. They have also faced determined and occasionally violent opposition from the vested interests which have traditionally sustained the party, in particular the powerful pro-Government trade union bureaucracy and old guard provincial party barons.

Some of the latter have even backed the PAN to make their point, while the union bureaucracy, headed by its octogenarian, eight-term leader Sr Fidel Velasquez, has been allotted a total of more than a quarter of PRI candidates for next month as quid pro quo for three years of restraining its disgruntled members.

Though President Miguel de la Madrid's 1982 election campaign, tilted strongly towards anti-corruption, raised the turnout and won its candidate a personal 75 per cent of the ballots, the PRI's fortunes subsequently sank. The party lost a string of major town-halls in the north in 1983, as the PAN garnered a growing protest vote.

Despite Sr de la Madrid's commitment to clean elections, the PRI "alchemists" were back in action after this scare, fixing elections—on the private admission of party officials—in Mexicali on the Californian border, and in Puebla, a conservative enclave south of the capital.

PAN claims of fraud in municipal elections in the northern border state of Coahuila sparked a wave of violence at the New Year. In the worst incident, in Piedras Negras, at least two people were killed and 42 wounded, and dozens of PAN supporters took refuge over the border in Eagle Pass, Texas. The army was brought in to regain control.

This is an ominous precedent, above all for the elections in Sonora, where the PRI sees an unholy alliance being built round the PAN by what historically it regards as its three competitors for power. These are the private sector, politically dispossessed by the revolution; the conservative church hierarchy, politically disenfranchised by the 1857 liberal revolution of Benito Juarez; and the U.S., perceived as constantly meddling in Mexico.

There is little chance of the PRI letting a strategic border state go under these circumstances. But, equally, the PRI stands an even chance of winning fairly while the PAN is basically an urban party, the PRI has the machinery and patronage to revive its flagging rural vote.

Nevertheless, the atmosphere has been overheated by the New Year riots and even the perception of fraud could unleash serious civil disturbances.

The rise of the PAN, which won 16 per cent in 1983, is on the face of it puzzling. It has no programme, its leaders are distinctly lacklustre, and as a confessional party it constantly flies in the face of the secular precepts of all Mexico's revolutions. It is reactionary in the strict sense of the word.

The Left on the other hand is made up of three PRI satellite parties and three independent but divided parties which, because the PRI programme is formely Left-wing nationalist, have not been able to find a distinct voice. The PAN's secret, amid the clamour for democracy and against corruption, is that it is quite clearly not the PRI.

The ruling party then, though facing no serious challenge to its hold on power in the short to medium term, can no longer assume it is the predestined depository of national confidence. Not to respond to Mexicans' desire for a more open society will be to risk leading the country towards stagnation and instability.

Irma Cue de Duarte (right) elected the first woman secretary-general of the PRI, is congratulated after her victory last year.

New style restores the office's prestige

The presidency

DAVID GARDNER
ROBERT GRAHAM

IN THE grounds of the Los Pinos presidential compound in Mexico City a path leads up to the residence lined with the rather more than life-size statues of past presidents of Mexico. The one most clearly visible to the residence's current occupant, President Miguel de la Madrid, is his predecessor, Sr Jose Lopez Portillo.

Once admired as the outgoing and flamboyant leader of a rapidly developing and oil-rich nation, Sr Lopez Portillo is now probably the most reviled man in Mexico, for having led the country — amid demagogy, nepotism and massive corruption—to financial collapse in 1982.

In so doing he brought the credibility of the 56-year old regime of the Institutional Revolutionary Party (PRI), and the prestige of what is by far its most powerful institution, the presidency, to an all-time low.

The de la Madrid style, in striking contrast, is sober and earnest. The content is based oround three main themes: the "moral renovation" of society, cleaning up corruption ond making government more responsible for its actions; the structural overhaul of the economy as it climbs out of the deepest recession since the 1930s; and the maintenance of social peace despite this npbeaval.

The latter entails carrot and stick, using the state apparatus both to sustain employment and nutritional levels, and to discourage serious dissent.

The success of these three objectives is seen as the key to restoring the regime's prestige. Some analysts have argued that charging Sr Lopez Portillo for corruption would have achieved the same aim more rapidly (Sr de la Madrid and his aides have repeatedly insisted that investigations have turned up no solid evidence against his predecessor).

A Mexican president is chosen by his predecessor, who is not eligible for re-election. If the system is working, someone suited to the needs of the following *sexennium* is selected. Sr de le Madrid's background in the Bank of Mexico, the public sector, as Treasury undersecretary and then Planning Minister was elearly important in his being chosen.

Loyalty to, and close and long working experience with the outgoing president are also key fectors in becoming chosen, in a process with little pretensions to democracy. None of the last three presidents was elected to anything before being named ae PRI presidential nominee, and the trend is for presidential candidates, as well as most senior office-holders, to emerge from emong close subordinates within the hureaucrscy rather than the party.

The President's power while in office is theoretically absolule hut bounded hy the need to conciliate potentiolly opposed interest groups such as business and labour, as well as the vested interests spawned by the PRI.

Equally, efforts to introduce an element of internal democracy into the PRI, in the hope of throwing up attractive natural leaders, have for the most part been successfully resisted by nld-guard party barons.

The president is both chief executive and head of state, a dnal role bringing with it a gruelling round of ceremonial functions.

But despite the numbing weight of this obligatory ceremonial round, Sr de la Madrid has surprised those who saw him as a colourless technocrat with his periodic ability to cut through the declaratory verbiage with forthright, highly political speeches when major political issues arise.

In three speeches nver the past nine months, for example, he has warned the police against torture, extortion and violence; warned the Right-wing opposition against violence ahead of tense mid-term elections next month; and werned of the great potential for violence in Mexico's depressed countryside.

Detractors accuse him of vacillation while supportors stress that he is committed to gathering as large a consensus as possible before proceeding on key issues.

Some admirers in the business community describe his government as boring, adding—with the memory of his two predecessors who expropriated large landholdings and the banking system es their parting shots—that they hope it stays that way.

Long-term fight against graft

MIGUEL DE LA MADRID won an out-and-out and personal vote in the 1982 presidential elections in large part because he promised the country he would attack corruption, hy then a multi-billion dollar plague.

The government set up a comptroller-general's office with wide-ranging powers, and with a young elite team (mainly of accountants and economists), led by Sr Francisco Rojas, perhaps Sr de la Madrid's closest collaborator.

The strategy nf Sr Rojas and his colleagues' has been to seek to reduce opportunities for corruption and put in place the legal means to punish it. Each ministry and public enterprise nr service now has an tnspector reporting to the comptroller-general. External andits have been reformed to introduce concepts such as conflict of interest and nepotism, and public servants are required to register personal wealth each year (90,000 have now done so).

Tight controls have been imposed on tenders and public sector imports — areas where illicit fortunes were made during the oil and credit boom of the 1976-82 Lopez Portillo Administration. Sr Rojas says many billinns of pesos have beer saved by forcing companies to re-present tenders. In foreign trade, his office has hired the Swiss Societe Generale company, with 3,000 nperatives across the world, to carry out selective checks for dissuasive purposes (the cost of one contract, Sr Rojas offers as an example, was thus reduced from \$9m to \$4m).

Largely as a result of this sort of discretionary andit, about 150 prosecutions have been carried out, with more in the pipeline. The best known is of Sr Jorge Diaz Serrano, former bead of Pemex, the state oil monopoly, now in prison facing embezzlement charges.

Moral renewal

DAVID GARDNER

Pemex, whose export revenues under Sr Lopez Portillo rose from \$583m in 1976 to \$16bn in 1982 (with a corresponding rise in spending and foreign borrowing) offered one of the main sources ef what the old penal code called "inexplicable enrichment."

In two years it has cut its foreign debt by \$3bn, eperating costs by 10 per cent in real terms, and increased its surplus five times — although it has not explained how this astonishing fat-stripping operation was achieved.

Last year the Pemex union, which under the boss-style leadership of Sr Joaquin Hernandez Galicia, "La Quina," had grown fat and powerful during the boom, had its main source of revenue taken away — the right to subcontract 40 per of Pemex projects, with attractive commissions.

This appears tn be as far as the government is prepared to move against this "state within the state." The government has also backed off from confronting the leadership of the Teachers' Union, the largest in Latin America, even though it is a major contributor to unrest in the depressed south of the country, where it has been trying to suppress dissident union organisations.

In an incident last month, for example, an oil-workers' leader in the North-East won a local assembly against La Quina and his colleagues. His house was machine-gunned and he was subsequently retired early by Pemex.

Widespread

For much of the public, little has improved. The policeman on the beat—despite a series of government measures to clean np the security fnrces—continues to extort bribes, while there have been numerous recent instances of police working freelance for criminal or political gangs. This year it became clear that there is widespread official complicity in Mexico's booming drugs traffic yet few senior heads have rolled.

At other levels, businessmen are once again having to pay ½ per cent commissions for loans from state banks, while the Government, including the President's office, continues to augment the meagre earnings of Mexican journalists with the "embute" or bi-monthly cheque.

Corruption in Mexico had reoched a point where it was inhibiting the function of society and the economy, and becoming a potential source of instability. According to Sr Rojas, it will not be eradicated in one year or six years. But he and his colleogues hope to "reach the point where it ceases to be the fundamental preoccupation of society."

Bridgebuilder in a troubled region

Foreign policy

ROBERT GRAHAM

MEXICO'S RELATIONS with the U.S. have more often than not followed an uneven path of ups and downs.

Given the different stages of development and the historical conditioning of the Revolution on Mexicans, it is perhaps a tribute to the ultimate pragmatism of both sides that they manage to sustain such a complex relationship through testing times.

Mexico has constantly, and successfully, struggled to maintain its identity. Yet at the same time it has realised that it cannot afford to alienate the U.S. Thus, while there has been considerable friction under the de la Madrid Government with the Reagan administration over issues ranging from drugs and protectionism to the whole question of Central America, Mexico has nevertheless been able to rely on the U.S. as a vital economic and financial cushion during the debt crisis.

The U.S. Treasury was quick to step in with a bridging loan, while sales of crude to the U.S. strategic stockpile continued even though the oil market had gone slack.

This suggests that there are basic checks and balances in this key relationship which may not always appear through the traditional channels of the presidency and the Foreign Ministry, or which are simply obscured by the rhetoric of both sides. Indeed, the frictions arise when both sides appear to ignore these natural checks and balances inherent in the neighbours' need to understand one another.

For instance, at present the Mexican Government is enormously exercised over what it regards as an exceptionally heavy American pressure for tighter elimination of narcotics traffic in Mexico. This follows the death earlier in the year of a U.S. narcotics agent, kidnapped and murdered in Guadalajara.

The U.S. Government hinted at sanctions including advising tourists against visiting certain Mexican places in its anger over what happened. The Mexican authorities felt incensed that their efforts to find the agent's killers went unnoticed.

It is incidents such as these, noisily reported and angled in the Mexican and U.S. Press, which arouse a sense of mutual antagonism and lead Mexican officials to believe they can never achieve what they most want with the U.S. — a relationship based on mutual respect.

Ignore

By far the most testing sphere in current Mexican-U.S. relations is over Central America. Senior Mexican officials believe that President Reagan's obsession with a Communist threat in Central America has wholly coloured his judgment and led him to ignore the positive contribution a country such as Mexico can make. And, just as important, to overlook Mexico'e own vital interest in the region's stability.

The Mexican view is conditioned by an historic mistrust of American interventionism which in turn has encouraged support for those countries seeking to be "independent" from, or less dependent on, the U.S. Hence Mexico'e consistent support for Dr Fidel Castro's Cuba, and subsequently for the Left-wing Sandinista Front in Nicaragua.

The Lopez Portillo Administration became the principal backer of the Sandinistas. Once they had achieved power, President Lopez Portillo provided large amounts of economic and financial assistance. He felt it was easier to work with a revolutionary régime if it was co-opted into accepting — and relying on — its regional partners.

This is still the Mexican view although President de la Madrid edopts a more conservative and sceptical view of the Nicaraguan Government. Nevertheless, the very force of the U.S. economic embargo has obliged the Mexicans to maintain their level of economic support, even though this is costly.

On several occasions during the past two years Mexico has dropped hints that it would discontinne (and even discontinued) oil supplies to Nicaragua, equivalent to half that country total needs. However, this aid has always resumed. When it started just before the debt crisis, the aid could have been considered tokenism. Now Mexico is owed more than \$550m, the biggest single country creditor, and seems locked into this role with all the inconveniences of irritating the U.S. and never getting paid.

To prevent the U.S. sliding towards further belligerency over Nicaragua, Mexico has attempted to act as a bridge. It has done this either on its own, promoting the American-Nicaraguan talks at the Pacific resort of Manzanillo, or in conjunction with Colombia, Panama and Venezuela—the "Contadora Group."

The Manzanillo talks, which began last year, were unilaterally suspended by the U.S. in January, but the forum remains a useful one, and Mexico's offer of good offices remains open.

The Contadora initiative, begun in January 1983, is both more complex and original. It represents the first effort by the larger countries in the region to resolve their own collective security by promoting a peace treaty for Central America.

Refugees from the civil war in Guatemala await transport to new camps in the Mexican state of Campeche. The Mexican Government decided last year to resettle the thousands of refugees after an attack on one camp near the frontier by the Guatemalan Army.

A draft treaty now exists laying down arrangements for limiting force levels, the withdrawal of foreign military advisers and verification. Mexico's leverage over Nicaragua, and its friendship with Cuba, has led to important concessions from Managua; and the difficulty now resides with the posture of the U.S. administration. Washington's acceptance of Contadora would involve a radical departure from all previous doctrine regarding America's "backyard." Acceptance of Contadora implies that regional powers have the right to create their own collective security arrangements close to the U.S. borders.

While the Reagan administration is unwilling really to endorse Contadora, the process is blocked yet not wholly impotent: its very existence provides a safety valve to defuse tension in the region.

One of the curious features of Mexico in relation to threats of instability in Central America is the size of its armed forces. Mexico City alone has a greater population than the five countries of Central America; yet the combined size of the military in Guatemala, Honduras, El Salvador and Nicaragua is greater than that of Mexico. (And as it is, a quarter of the Mexican army is involved in anti-drug operations.)

Critics of Mexico's foreign policy accuse the government of pandering to the Left, using friendship with Cuba, support for the rebels in El Salvador and backing for Nicaragua as a means of concealing conservative policies at home. While there is a measure of truth in the accusation, this belies the enormous pragmatism of Mexican policy.

For instance, Mexico has adopted a very low key approach to the brutal military government in Guatemala. The two share a common frontier and Mexico has had to cope with more than 47,000 officially registered Guatemalan refugees, mainly in the region of Chiapas, created by Guatemala's military operations. Quiet diplomacy has been used rather than noisy rhetoric.

The absence of rhetoric has been notable in Mexico's position on international debt. Mexico's refusal to endorse radical action, like the formation of a debtor's club, and to insist on working through the International Monetary Fund has been a significant moderating force within the Cartagena Group of Latin American debtors.

Mexico's involvement in the Cartagena Group and Contadora signal a departure from the country's normal distance from committing itself to group action. Mexico, for instance, has fought shy of joining OPEC as an oil producer; it has so far refused to join GATT even though it possesses the world's 12th largest economy. And even at the height of the country's flirtation with the Third World under the Echevarria administration, membership of the Non-Aligned Movement was eschewed.

The greater commitment now to Latin America reflects the discreet hand of the Foreign Minister, Sr Bernardo Sepulveda, a Cambridge-educated international lawyer. However, more emphasis on practical cooperation with Latin America does not alter the traditional need to appear independent of the U.S. without altering the underlying substance of relations with the powerful northern neighbour.

PROFILE: BERNARDO SEPULVEDA

Relaxed style

BERNARDO SEPULVEDA, Mexico's Foreign Minister, has what is one of the most difficult, but at the same time most popularly supported, jobs in the Government.

It involves designing and executing an independent, peace-seeking policy towards Central America at a time when Washington's perceived Communist subversion of the region has become an obsession with the Reagan Administration. But this effort to articulate a policy based on the right of all Latin American nations to sovereignty and self-determination enjoys a wide consensus at home, among a profoundly nationalist people.

Sr Sepulveda is a Cambridge-trained professor of international law and son of a respected public health expert who died in Merch. Under the previous administration of President Jose Lopez Portillo, he acted as a foreign policy adviser, particularly to Sr de la Madrid when the President was deputy Finance Minister and then Planning Minister. His master's thesis, written in the 1960s, is considered the definitive legal justification of Mexico's decision not to break relations with Cuba when Washington persuaded the rest of Latin America to put the Castro régime in quarantine.

Sr Sepulveda was groomed for his present post by being given the job of organising the 1981 North-South summit at Cancun; then being made foreign policy spokesman for the ruling PRI; and finally during a brief spell as ambassador to Washington.

Relaxed and thoughtful in private, he sometimes comes across as ponderous and academic in public—though this is very much in keeping with the style cultivated by this government, of almost wanting to be boring, in sober contrast to the flamboyance and erraticness of its two predecessors.

Sr Sepulveda can claim much of the credit for making a hitherto often-improvised foreign policy both more rounded and better defined in its objectives. These could be summarised as an attempt to promote a modus vivendi with and between its regional neighbours further afield which can contribute to that aim.

This has not saved him from occasionally sharp run-ins with the State Department though typically, given the man's discretion, one hears more about these from the U.S. side. There have also been differences with the Interior Ministry—over the latter's sporadically hard-line stance towards Central American refugees—and with the economic ministries over oil supplies to Nicaragua.

But Sr Sepulveda has the backing of Sr de la Madrid, who last year reminded his Cabinet that Mexico had one foreign policy and that it was their duty to defend it.

DAVID GARDNER

Pragmatism rules as need increases

Foreign investment

ROBERT GRAHAM

THE DECLINE in oil revenues and the need to find large quantities of foreign currency to service debt is forcing the Mexican Government to put a new emphasis on attracting investment. Increased foreign investment is seen as the best means of encouraging both a greater export mentality and of generating export earnings. It is also seen, though this is not stated, as a tool with which to push Mexico's economy towards greater liberalisation.

Mexico has never discouraged foreign investment in recent years; but neither has it been entirely open-armed. Certain strategic sectors, such as power generation and petrochemicals, have been reserved solely for Mexican business.

There has always been a general reluctance to concede majority shareholdings to foreigners. Thus foreign investment traditionally has normally been a means of gaining access to a large and highly-protected market.

At the same time, the Government, despite a good deal of nationalist rhetoric in public, has tended to treat foreign investment on a case-by-case basis, thus leading to a number of instances where well-known international groups have been permitted to obtain majority or 100 per cent interests, especially when they have specialised technology.

The ambiguities surrounding foreign investment, and the groundswell of nationalism against it, have meant it has played a relatively minor role in overall investment. Official figures show foreign investment is 4.5 per cent of total investment in Mexico.

Only 3.3 per cent of U.S. investment abroad is in Mexico. This is a very small figure considering the inter-connection between the two countries, and Mexico's position as the U.S.'s third-biggest trading partner. U.S. officials explain the low investment due to the ease of supply from their domestic plants, combined both with fears of too high a profile in Mexico and the high degree of bureaucracy traditionally surrounding foreign investment.

Even with such reservations, U.S. and other foreign investment rose sharply during the late 1970s and early 1980s. The economic crisis of 1982, coupled with the nationalisation of the private banks, caused an abrupt halt in this trend.

In 1983, the net inflow of foreign investment reached no more than \$264m. Since then the pragmatic approach of the de la Madrid government has helped create a more positive environment, so that total foreign investment now stands at \$14.1bn, with an increase of authorised investment last year of \$1.5bn.

Since the de la Madrid administration took office, 187 companies have been allowed to acquire a majority interest —usually 100 per cent—including Caterpillar, Combustion Engineering, Ericsson; Black and Decker, Komatsu and Blue Circle Cement. These have often been in sectors where previously no more than 49 per cent was permitted.

While the government likes to take credit for greater open-mindedness towards foreign investment than its predecessors, foreign investors are now behaving differently towards Mexico. In the first place companies with existing operations in Mexico (and most of the Fortune 500 are well represented) have as a result of the economic crisis been faced with a difficult choice.

Those with minority stakes have found their Mexican shareholders short of capital and lacking funds to service debt (usually foreign contracted). Faced with the choice of pulling out or staying on, many have preferred the latter effectively capitalising debt on condition that they have a greater say in the local company.

This has been the case with Blue Circle and Tolteca cement company, Hawker Siddeley and its diesel engine project, Ericsson with its switch gear and Caterpillar with its capital equipment venture.

A second important element in the changing climate towards foreign investment has been tha movement away from the U.S. of labour intensive, low or medium technology industry to the Pacific Basin and to a lesser extent North Mexico.

Although North Mexico has benefited proportionally less than the Pacific Basin, it nevertheless has become an important element in large U.S. corporate strategy, and among smaller and medium-sized companies in the Texas, Arizona, California region. The U.S. automotive industry has now begun to view Mexico, with labour costs a good five times cheaper, as an important source of supply. Ford for instance is investing \$500m in a plant in northern Mexico which will be geared in part to the U.S. market.

The most interesting development regarding foreign investment and the U.S. market has been the rapid expansion of the "maquiladora" industry. These are operations set up to import in-bond materials for assembly or manufacture and export across the border. Investment in this sector rose 43 per cent in real terms in 1983 and 25 per cent last year, with a similar high projection for 1985.

Strength

The continued success of maquiladoras however is strongly linked to the strength of the Mexican peso and Mexican wage levels. In the first quarter of 1985 the peso-dollar rate did not devalue fast enough, weakening the attractiveness of Mexico for this type of operation. Nevertheless, proximity to the U.S. must be e major card in favour of the permanence of the business.

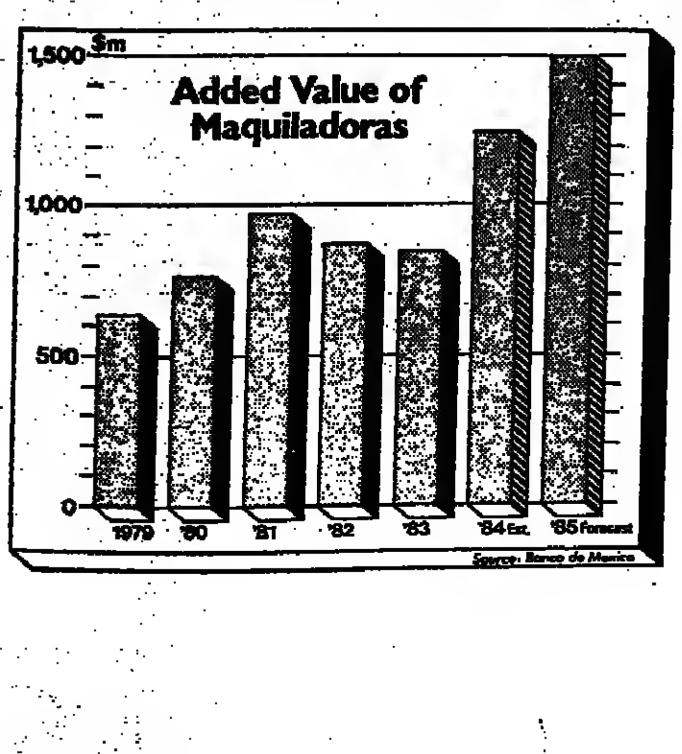
But no issue has exposed the confusion of the government over foreign investment as that concerning IBM, and the development of a micro-computer industry in Mexico. Before the de la Madrid Government took office, a new law was drawn up limiting foreign investment in microcomputers to 49 per cent. The law is still on the stocks and has never been introduced.

However, in anticipation of its approval, both Apple and Hewlett-Packard formed minority companies with Mexican partners. IBM, which has been operating in Mexico since 1927 and already has a 100 per cent owned subsidiary, making the system 36 mini-computer, proposed its own micro-computer venture. However, IBM insisted on a wholly-owned subsidiary. Apple and Hewlett-Packard shouted foul.

The Government then found itself in a dilemma: 26 companies were already in the field and it did want to promote Mexican high technology.

The affair looks as though it will be resolved—or at least fudged, but it has focused unfortunate attention on the different forces competing to alter Mexico's foreign investment policy.

The Government now admits mistakes were made on both sides and a Solomonic solution is being sought, whereby IBM is being asked to prepare e different and better offer.



MEXICO 4

The challenge now is to push through major structural changes to resume growth

Long-term battle to pay debt bill

The economy

DAVID GARDNER

THE MEXICAN economy has been the undoubted success story of the international debt crisis, which Mexico itself set off in August 1982.

But despite the de la Madrid government's extraordinary successes in turning round the country's external accounts, and in persuading its bank creditors to take a longer-term view of the debt problem and reschedule over 14 years at finer margins $48.7bn of total owings abroad of $96bn, Mexico now faces probably its most challenging 18 months since the 1982 financial collapse.

"We are still a convalescent economy," says Sr Jesus Silva Herzog, the Finance Minister. "We're out of intensive care but still in therapy."

The challenge now is to push through major structural changes to resume growth, at a time when nearly all currently available revenues—principally from oil exports—are earmarked to pay the debt service bill, and bank credit will not resume on anything like the previous scale.

The first two years after the 1982 debacle were marked by a major assault on Mexico's main external and internal imbalances. A current account deficit of $4.9bn in 1982 was turned into surpluses of $5.5bn in 1983—the first time the current account was in the black since 1955—and $4bn last year, on the back of trade surpluses of $13.8bn and $12.8bn.

Domestically, a public sector deficit of 18 per cent in 1982 was more than halved to 8.7 per cent in 1983, and further reduced to 7.6 per cent last year. Inflation, running at an annualised 117.2 per cent in April 1983, was down to 56.5 per cent by April this year.

The contraction in economic activity that accompanied the IMF-inspired austerity programme and switch in resources brought the first drop in national output for over half a century.

Last year, as the first real signs of recovery began to emerge, the economy grew with unexpected vigour by 3.5 per cent, against a target of 1 per cent. But this recovery, starting a trend towards falling trade surpluses, has exposed the structural shortcomings of an economy which has to generate wealth sufficient to service the second largest foreign debt in the world and yet meet the development needs of its nearly 80m people.

Mexico's principal source of foreign exchange is oil exports, worth $16.2bn in 1983 and $16.6bn last year. These revenues underpinned but were not sufficient to account for the record trade surpluses of 1983-84. Imports were cut by a massive two thirds in 1981-83, while non-oil exports were lifted 32 per cent in 1983 and 18 per cent last year (when imports also rose 32 per cent, reflecting the strength of the recovery).

But as things stand, this was a one-off effort. A comparable cut in imports is probably unrepeatable if the economy is to grow, while the non-oil export performance was based on surplus capacity in industry of around 40 per cent.

These surplus goods are now being sucked back into a highly protected domestic market by the recovery in demand and non oil exports are not offsetting the revival in imports.

The first quarter trade surplus for this year was 42 per cent down on the same period last year at $2.3bn, with imports (largely of capital goods by the private sector) rising 37.6 per cent and non-oil exports dropping 16.3 per cent, continuing a trend evident in the last quarter of 1984.

This trend is deeply worrying to the Government because with oil revenues tied up for the foreseeable future in servicing debt, it has pinned hopes of restoring growth levels of 5-6 per cent by next year on widening the country's export base. Even after the March 29 multi-year rescheduling, Mexico still faces a debt service bill of $14.4bn this year, rising to $23.2bn in 1990.

In April, therefore, the Government sought to introduce the most radical trade liberalisation package since Mexico began its rapid industrial development after the 1939-45 war. The measures are designed "to rationalise the structure of protection" and do away with an "indiscriminate import substitution model" so that non-oil exports gradually cover the country's import needs. In essence they seek to:

- Gradually replace import licences by tariffs, which will cover, in a range from 10 to 50 per cent, nearly half of imported items by the end of the year;
- Allow exporters to import 40 per cent of the value of their exports free of import licences, tariffs or VAT; a freer system of "temporary" imports of capital equipment; and allow the booming, 700-plus in-bond or Maquiladora plants on the frontier with the U.S. to sell 20 per cent of their output domestically;
- Exempt domestic suppliers to exporters from VAT; allow automatic import of products whose local competitor is selling at more than 50 per cent over the international price; and
- Encourage the formation of trading companies with foreign capital in an attempt to get multinationals to open up markets to Mexican goods; the nationalised banks will be available to put up 50 per cent of the capital in these trading houses.

In addition, foreign investment projects with potentially high export revenues are to be given a new priority, while exporters for the first time will be given preference over companies substituting imports in competing for Government soft loans and credit lines.

However, the key measure opening the frontier to 40 per cent of the value of exports, known as Diemex, has so far been successfully blocked by the private industrial lobby, which believes it could wipe out a sizeable chunk of manufacturing.

Mexican industrialists, who grew up with a comfortably captive market under the import substitution model associated with the UN Economic Commission on Latin America (Cepal)—which gave Mexico growth rates averaging 6.6 per cent a year from 1950-81—have had little need or incentive to export up till now.

The Government, while not intending to imitate the disastrous, wholly open frontier policies carried out by Chile and Argentina in the late 1970s, is determined to give them both. Ministers confirm the Diemex scheme will be introduced, though it will now probably be available only to exporters of goods with minimum 30 per cent local content, and the "freed" imports will be to a value of 30 instead of 40 per cent of the value of the exports.

It is also hoped that the liberalisation will force down domestic prices. Though the peso is now slightly overvalued, having had a cushion of undervaluation for most of last year, the government is eschewing devaluation as a means of giving Mexico's goods a competitive edge since, Ministers argue, it would fuel inflation, and not resolve the structural problem.

The government nonetheless remains committed to a competitive exchange rate, and in December and March, sped up the daily, crawling peg rate at which the peso depreciates against the dollar to 21 centavos.

The other major domestic imbalance, the deficit, is also being tackled with some energy, though several analysts believe progress has been held up by the prospect of key mid-term elections next month, in which the ruling PRI faces the most serious challenge of its 56-year-old regime.

Last year's higher than expected deficit reflected increased lending by state development banks to the private sector, and an overshoot in transfers to public sector companies amounting to fully 3.3 per cent of GDP, partly because of higher interest payments.

The government last year also returned 339 non-credit assets held by the nationalised banks to former bank shareholders, including financial companies which are now part of a vigorous capital market in competition with the banks.

More recently, the Government has moved to absorb part of the debt of selected public enterprises, in exchange for tight performance in criteria, as well as setting strict limits on fiscal transfers to the public sector, and bank credit.

These cushions for the private sector, preventing a wave of bankruptcies and lost jobs, have been a major plus in the social contract the Government has successfully managed with the largely pro-Government unions. Vital subsidies on food and transport have been retained (though total subsidies have been nearly halved from 1982 to some 7 per cent of GDP), softening the 32 per cent cut in purchasing power that half of the workforce in full-time jobs have suffered since January 1981.

The years of the oil and credit boom greatly increased the size of the Mexican economy; industrial capacity was doubled between 1978-82. Mexico's GDP now exceeds that of Spain, Australia, the Netherlands or Belgium, and the combined GDPs of Argentina, Chile, Colombia and Venezuela.

But dependence on oil, the size of the debt, and the fact that three-quarters of exports go to the U.S. are formidable external constraints. So far, falling oil prices have been compensated by falling interest rates, but the nightmare scenario of a collapse of oil revenue, rising interest rates and a contraction in the U.S. economy still causes sleepless nights for Mexico's managers.

Its strategy now only bucks the trend in that it is trying to liberalise at a time when most of the rest of the world is putting up barriers to trade. Hence its insistence, within the Cartagena group of 11 Latin American debtor nations, on a "political dialogue" with industrialised countries.

In Sr Silva Herzog's words: "A solution (to the debt crisis) which resolves the accumulated problems of the past, but ignores the problems of the future" is no solution at all. Ways have to be found by both debtors and creditors jointly to resume the net inflow of funds needed for development.

1984 economic programme and 1985 targets

	1984†	Outturn 1984	1985
Output (% growth)			
GDP	2.2-2.5	3.5	3.0-4.0
Industrial output	3.0-3.3	4.3	3.9-4.8
Agricultural output	2.8-3.0	2.4	2.2-2.4
Consumer prices increase Dec to Dec (%)	55.0	59.2	35.0
Trade balance	13.0	12.8	10.0-12.0
Current account balance	4.0	(e)4.0	1.0-2.0
Growth in imports (%)	29.5	31.6	n.a.
Gowth in non-oil exports (%)	18.6	18.4	n.a.
Public foreign debt (% of GDP)	56.4		51.4
Public finances (% of GDP)			
Financial deficit	−7.2	−7.4	−5.1
Financial surplus before interest payments	5.2-5.1		5.6
Public revenue	31.9		31.3
Programmable expenditure	23.0-23.2		23.2
Exchange rate depreciation			
"Free rate	29.5	20.1	n.a.
"Controlled" rate	33.1	33.8	n.a.

† Estimate.

Source: Presidency and Bank of Mexico.

Total debt service as % of exports

($bn)

	Debt service before multi-year rescheduling of $48.7bn		Debt service after rescheduling	
	Total	% of total exports	Total	% of exports
1984	17.2	56.5	17.5	57.5
1985	23.3	71.0	14.4	43.5
1986	23.1	65.5	15.2	43.3
1987	22.7	74.1	16.2	43.3
1988	29.4	72.7	19.7	49.4
1989	28.3	65.2	21.5	49.5
1990	26.9	57.1	23.2	49.2

Source: Finance Ministry.

Jesus Silva Herzog Hector Hernandez

Contrast of styles in the Cabinet

MEXICO'S economic managers have a fairly cohesive profile which invariably combines at least two of the following elements: a long working association with President de la Madrid when he was Deputy Finance Minister and later Planning Minister; a U.S. post-graduate education; or an association with the Bank of Mexico (where the president also began his career).

Sr Carlos Salinas de Gortari, the Planning and Budget Minister and at 36 the youngest member of the cabinet, is a prime example of the first and second elements, holding a doctorate and two masters degrees from Harvard (where the president also studied), and in large part responsible for the Global Development Plan under the last administration while Sr de la Madrid was Planning Minister.

Pragmatic

Sr Jesus Silva Herzog, the Finance Minister, and Sr Miguel Mancera, the Bank of Mexico chief, studied at Yale. These orthodox, if pragmatic economists contrast strongly with their neo-Keynesian adversaries in the 1976-82 economic cabinet, many of whom emerged from Cambridge University.

These two, as well as Sr de la Madrid and Sr Mario Ramon Beteta, the head of Pemex, are Bank of Mexico alumni, and the influence of the central bank in this administration is formidable.

At one level, Sr Mancera and his colleagues are largely responsible for designing the Ficorca foreign exchange risk insurance scheme for private sector debtors, and the public sector borrowing requirement mechanism introduced last autumn (both measures arguably in the Treasury and planning and budget portfolios), as well as the controversial trade liberalisation programme announced in April (which Sr Hector Hernandez, the Trade and Industry Minister, and his colleagues not surprisingly see as their preserve).

At another, the central bank cadre formed in the 1950s and 1960s under its long-time chairman, the late Rodrigo Gomez, are now entrenched at all levels of the administration. At home his orthodox disciples have tended to attend the national technical university (ITAM), a bastion of Chicago-trained economists, rather than the more Left-wing national university (Unam) economics faculty.

Unam graduates tend to gravitate towards the planning, trade and industry, and energy and parastate industry Ministries, while Itam graduates often end up in the Bank of Mexico (like Sr Mancera) or the Treasury.

Educational provenance roughly corresponds, therefore, to the division of opinion between the former group of traditionally and by function, more statist ministries, and the latter more free-market-orientated group. These differences have emerged principally over regulation, trade liberalisation, and foreign investment, but in general, the main division is over the pace of structural reform.

Sr Silva Herzog, who with his young aide Sr Angel Gurria has become the star of the international debt circuit, explains that in the economic Cabinet "there is room for different points of view, but this does not mean lack of definition. It is the President who defines policy after hearing several opinions."

D.G.

Thorough search for greater efficiency

Public sector

DAVID GARDNER

IN JANUARY this year, Mexicans were startled by two unexpected announcements about the public sector—the parastate enterprises as they are called.

The first was that 236 "non-strategic" companies were to be sold off to the private sector, liquidated, or transferred to local government. The second that, contrary to popular belief, the public enterprises accounted for only 25.6 per cent of GDP, a calculation based on the added value they generate rather than, for example, tha budgetary resources they consume.

This was the lowest figure ever given for the public sector's share of the economy, estimates on which had ranged up to 70 per cent, particularly after the September 1982 nationalisation of the private banks.

Mexico's public sector employs about one-fifth of the workforce (or 4m people, of whom 1m are in parastate enterprises) and accounts for two-fifths of the national wage bill. Its activities range from basic industries such as steel (four companies), power generation (two companies), mining (14 companies), fertilisers and fisheries, transport (all railways, the two flag airlines, the Mexico City metro, and several municipal bus companies), oil and petrochemicals production, to multifarious enterprises such as the national newsprint monopoly, the national lottery, and even graveyards.

Mexico's constitution consecrates the state's role in the economy in "strategic" and "priority" areas, and an amendment to it introduced by the present Administration, enshrines the "rectorship" of the state over a mixed economy. "Strategic" industries include major national resources like oil, power, railways (nationalised in 1938 by Gen Lazaro Cardenas), steel plant and mining (though private sector companies such as Alfa are heavily involved in steel and petrochemicals, and Peñoles, for example, owned by the Alberto Bailleres group, is the largest private silver producer in the world).

"Priority" industries are tied to specific national plans. In theory, when the goals of the plans are met, the companies concerned lose their priority and can be privatised.

This reasoning was used to sell the 36 enterprises — out of a total of 850 — a divestiture to a public encouraged by decades of regime rhetoric to identify nationalism and sovereignty with state control of the economy. The de la Madrid Government had already come under fire last year from the nationalist Left in and outside the ruling PRI for returning 339 non-credit assets owned by the nationalised banks to the former shareholders in the banks.

The privatisation effort, without parallel in Mexican history will nonetheless not extend to any of the major companies.

In some of these companies, however, like Sicartsa, the $2.8bn Pacific coast steel complex in which Davy McKee has a $350m contract to build a plate steel plant, the possibility of inviting external equity participation has been broached. In addition, the March 29 multi-year rescheduling agreement between Mexico and its creditor banks opens up further opportunities to capitalise debt in lesser public companies.

Tighten

Both possibilities have been prompted by shortage of funds, and are part of a wider series of measures designed to tighten public finances and cut the public sector deficit. These measures include the introduction of a public sector borrowing requirement; a $1.25bn cut in public spending in February, following the fall in oil prices, the divestitures, and the absorption of part of the debt of parastate enterprises in exchange for strict performance criteria.

The latter are being carefully monitored and bank credit to the public sector is being tightly controlled, while incoming revenues and fiscal transfers to parastate companies are now passed on as net sums, after suppliers and creditors have been paid, by the Treasury.

Higher than budgeted interest charges last year of pesos 3,247bn 43.3 per cent up on 1983 and 14.4 per cent up on the target, led to a 3.3 per cent overspend on government transfers overall.

But the target for current spending transfers was overshot by 12.2 per cent, while capital spending fell short by 13.1 per cent. This year, despite the February spending cuts, a 4 per cent real increase in public investment is *still projected*.

While the spending record of the public companies has been patchy, their overall deficit has been offset by Pemex, by far the most important among them.

Pemex has undergone an extraordinary financial turnround in the last two years following the removal of several senior officials, including Sr Jorge Diaz Serrano, the former chairman, now in prison on embezzlement charges.

In 1983-84 Pemex's current spending was cut 10 per cent in real terms (by over $1bn in 1983 alone); capital and reserves have increased 12 times since 1982; the $20bn foreign debt has been cut by over $3bn; and the company is now 80 per cent self-financing, against 20 per cent in 1982 (it borowed some $10bn in 1981).

Pemex's earnings in 1983 and 1984 were over $15bn, about five times higher than in 1982.

Public sector spending by selected companies

	1983	1984*	1984†	% variation on 1983	% variation on Target
CFE (power)	286	436	424	48.1	− 2.8
CLFC (power)	52	70	94	82.2	+35.4
Dina (trucks)	17	22	35	111.1	+61.7
Sicartsa (steel)	58	76	85	46.1	+12.8
AHM (steel)	65	87	111	69.3	+27.8
Fundidora M'nterrey (steel)	28	33	44	60.2	+34.8
FNM (railways)	89	144	135	51.8	− 6.0
CPFI (roads)	5	7	11	126.3	+53.3
OPERATORS					
Aeromexico (airline)	50	71	87	75.2	+22.6
PPM (fisheries)	64	108	83	29	−23.1
Conasupo (food)	394	531	613	55.6	+15.4
Pipsa (newsprint)	16	22	20	9.0	− 8.5
Pemex (oil)	745	1,195	1,155	55.1	− 3.4
Total (inc. other companies in budget)	3,636	5,145	5,945	63.5	+15.5

* Target. † Outturn.

Source: 1984 Report on Public Finances; Mexican Finance and Planning and Budget Ministries.

Still a controversial issue

Oil policy

DAVID GARDNER

A STRUCTURAL dependence on oil has meant that Mexico's oil policy has always been a crucial, and frequently a controversial and sensitive, issue.

A net oil importer in 1974, Mexico is now the world's fourth-largest producer, with daily exports of 1.5m barrels and proven reserves of 71.75bn barrels. Oil provides 70 per cent of Mexico's export revenues ($16.6bn last year) and 45 per cent of treasury receipts, and is vital both to the country's economic recovery and its ability to service its $96bn foreign debt.

Though not a member of Opec, Mexico has over the past 15 months tried to march in step with the oil cartel in the interests of price stability. Last November, for example, it cut exports by 100,000 b/d in line with the Opec emergency reductions aimed at holding prices.

In fact, Mexico would in any case have made a slightly smaller cut because of seasonal factors and to stay within its self-imposed export limit of 1.5m b/d.

In the last six months, however, Mexico has grown increasingly impatient with Opec's apparent inability to enforce a disciplined output and pricing policy among its members. According to Mining and Energy Ministry sources, this means that in the future, Mexico will act unilaterally when necessary to defend its market position, while simultaneously trying to stay aligned with Opec policy.

It would be wrong to infer from this, the same sources say, that Mexico will try to undercut Opec. When Opec cut the price of the Arabian light marker by $1 to $28 in February, Mexico reduced the price of its premium isthmus light by $1.25 to $27.75 but isthmus is heavier than Saudi light and the Mexicans were unwilling to further weaken their market by keeping the two crudes in artificially exact alignment.

In December and January, U.S. customers, who take 50 per cent of Mexican oil exports, had been delaying liftings of isthmus, while the heavier Maya blend, which at one stage had looked underpriced at $23.50 a barrel, has had its competitive edge eroded by the glut of heavy crudes from the North Sea reaching the U.S.

But though Mexico's need to keep a close rein on its markets is putting its support for Opec's rigid price structure under strain, this does not mean, officials say, that the country will seek closer alignment with non-Opec producers.

"Pemex (the state oil monopoly) is not BNOC or Tatoil," an energy official said earlier this year. "We believe in an official pricing policy and are against speculation (on the spot market) because this is against the price stability which is essential for our economic recovery."

Hostility towards the spot market is a constant of Mexico's oil policy. Although Mexican crude has reached Rotterdam in the past, it is believed these have been illicit deals by corrupt officials. When Haiti, a beneficiary of the San Jose accord under which Mexico and Venezuela provide concessionary oil to central American and Caribbean countries, sold Mexican oil on the spot market in 1981, it was suspended from the accord.

Nonetheless, Pemex officials have recently pressed in private to start some spot market sales. The Energy Ministry has blocked this, arguing that temporary market weaknesses cannot be allowed to interfere with the grand design. Mexico will continue for the time being therefore, to sell only to term customers.

A second rule concerns diversification, with a limit of 50 per cent set on exports to the U.S. (the other large customers are Spain, 11 per cent; Japan, 10.4 per cent; the UK 6.6 per cent; and France, 6 per cent). The problem is that sales to the nearby U.S. are more lucrative because of lower delivery costs. Thus Mexico sells a further 100,000 to 180,000 b/d of downstream products to the U.S., which is in fact so-called "virgin stock" or semi-refined crude.

A final golden rule is that all oil sales are for cash, with no barter transactions. This has been waived only in the case of Nicaragua, whose $550m debt with Mexico is more than half for oil, and yet it is being allowed to repay it 50 per cent in barter.

The bank nationalisation measure of 1982 is unlikely to be rescinded

Big three on top despite shake-up

Financial institutions

ROBERT GRAHAM

A Mexico City stockbrokers. The government has allowed a vigorous capital market in competition with the banks, nationalised in 1982

WHEN THE banks were nationalised in September 1982, the Finance Ministry ran a series of projections through a computer on the optimum number to retain.

At first the projections came up with nine, with no bank possessing less than 5 per cent. If accepted, this would have meant a major concentration of banking in Mexico—before nationalisation there were 70 banks.

In the event it was decided better to retain a larger portion of these—both to stimulate competition and allow some regional choice, as well as avoid the risk of concentrating too much business in too few institutions.

Mexico now has a total of 20 banks, split between commercial banks (known as Sociedades Nacionales de Credito), Development banks and regional. The commercial and development banks are considered national. But even with this shake-up, the traditional dominance of the banking system by the big three—Banamex, Bancomer and Serfin—has tended to persist.

Although the nationalisation move is still deeply resented by business, it is most unlikely that the measure will be rescinded. Instead, President Miguel de la Madrid, inheriting a *fait accompli*, has sought to make the most of a difficult situation. Commercial banking and development finance will be handled by the nationalised banks. However, the private sector will be able to provide a competitive edge by being permitted to operate in a nascent capital market—in leasing, mutual funds, insurance and brokerage houses.

This was made clear last year when 339 non-credit assets of the nationalised banks were handed back to their former owners. The state retained 128 credit institutions in addition to the banks.

Taking advantage of this ability to conduct secondary banking activities a number of new financial groups have been formed, and the number of brokerage houses have expanded using assets available from compensation for the nationalisation.

The Bank of Mexico recently revealed that the amount of compensation paid out by the Government to former shareholders totalled pesos 142bn in bonds, pesos 91bn representing capital and pesos 51bn interest betwen September 1982 and August 1983.

If anything, the Government erred on the side of generosity in paying for some of the smaller banks which had serious problems. The general rule was to pay out twice the book value of the shares.

President de la Madrid has been blamed for delaying too long in defining the nationalised banks' role. Nevertheless, he had to tread warily round populist sentiment in his aim of making the banks fully competitive.

Only the top management has been changed in the large banks and old identities have been encouraged. Bancomer is presided over by a former central banker, Banamex by a former education minister and Serfin by an economist and diplomat. This is hardly evidence of continued heavy intervention as some critics make out.

But the hand of the Government has been at work behind the scenes in encouraging the banks to provide emergency funds to hard-pressed companies. This policy has been justified on the grounds that employment needed to be preserved and the main problems of the companies were ones of liquidity.

The policy will be vindicated if these companies pull through operating as more efficient entities. The signs are that the larger, more sophisticated companies are learning the lessons, less the smaller and medium-sized companies. This could well mean that the banks become locked into propping up the less efficient small and medium-sized companies at the expense of providing fresh credit for the larger and more efficient. The fear among the private sector also remains that public companies will have first call on their resources.

Much depends on the pace of recovery. In 1983 commercial bank lending was down 18 per cent and deposits fell 9 per cent. Gradually throughout last year deposit levels gathered pace and for the first time since 1982 the gap between deposit taking and lending closed.

On present trends commercial bank lending could increase well over 5 per cent in real terms this year. But the banks are still cautious and have shown a notable preference for purchasing the high interest-yielding Treasury bills (CETES).

The growth of the latter market has been well exploited by brokerage houses who now channel more than 16 per cent of savings. Bank profits in 1984 rose from pesos 22.5bn to pesos 67.2bn. Even with the introduction of inflation accounting against an inflation level of 60 per cent, this still represents a substantial improvement.

According to Sr Carlos Sales, Under-Secretary for Banking in the Finance Ministry, the banks are in much better financial shape with sounder provision for bad debts. One important consequence of state control has been to channel a higher proportion of potential dividends back into reserves or bad debt provisions. Prior to the nationalisation most banks were under-capitalised.

A major batch of laws regulating the financial system was approved in November which ranged from providing new and more flexible powers to the Bank of Mexico to establishing new minimum reserve provisions and establishing a public sector borrowing requirement. The minimum reserve requirement was cut from 50 per cent to 10 per cent; the funds thus released are now obliged to go into special bonds, which eventually will be traded.

In this way, the central bank mops up liquidity which is not automatically passed on to the Government to spend. But banks still have the major proportion of their funds tied and only 35 to 40 per cent free. Other elements of the legislation defined the limits of bank participation in company equity. Banks can invest up to 10 per cent in a company's equity without restriction and up to 25 per cent provided this is for no longer than five years.

In addition, no bank may invest more than 5 per cent of its total deposits in company equity. A few of the banks have already begun to exploit these new provisions, the first being Banamex with a venture capital division.

Role yet to be clearly defined

Private sector

ROBERT GRAHAM

THE KEY to economic recovery is private sector confidence. Although this is universally recognised as a principle, the role of the private sector has yet to be clearly defined and the Government has still to dispel strong residual suspicions that remain in the wake of the traumatic nationalisation of the banks in 1982 during the final days of the Lopez Portillo administration.

Despite these uncertainties, the private sector has begun to emerge from two lean years. Management has faced some brutal adjustments as a result of the recession so that companies are now highly cost conscious, and far more aware of the need to look beyond the domestic market.

There is also now a much greater awareness of the need to liberalise the system to become more competitive. These are important and positive changes that have come out of the economic crisis.

The private sector accounts for just over 60 per cent of Mexico's GDP, and contrary to popular opinion the bank nationalisation has had very little effect in statistical terms on increasing the public sector's role. Official statistics based on 1983 figures show the nationalisation move added less than one point to the public sector's share.

Nevertheless, it gave the impression of much greater state protagonism which has not been dispelled even though most of the bank's non-banking assets have bene divested. The hasty manner in which the banks were nationalised and the populist trappings that surrounded the takeover even now make businessmen nervous, a nervousness that lies behind the continued flight of capital.

To try and allay these fears, the de la Madrid Government has pledged to privatise a number of existing state companies and lessen the historic interventionist role of the state. In March the President announced that 236 of the 840 state companies would be privatised or liquidated. Since then it has emerged that 55 of these will be liquidated, seven transferred to state governments and the rest sold off.

However, none of these companies are of any size or sectorial prominence, and business remains sceptical of a more significant divestment. Yet the government's word should be taken more at face value. The economic difficulties of companies, in virtually every sector, during the recession gave the government ample opportunity to take them over. Instead the government has preferred to step in with financial assistance without management or equity changes.

Compared to other Latin American economies, Mexico has witnessed remarkably few bankruptcies—not because the financial state of Mexican companies has been much better, rather a political decision was taken to keep them operating and their workforces intact.

This policy appears to have paid off because even those companies in 1982-83 that appeared in desperate financial straights have begun to improve—partly as a result of debt restructuring and partly due to improved management and an upturn in the economy. For the first time in two years, 1984 witnessed profitability returning to a number of sectors — notably chemicals and petrochemicals and some agro-industrial products.

The stock market since the middle of 1984 has been on a steady upward curve. While this reflects speculative activity, stock market analysts also believe the trend represents a genuine belief that a number of companies are undervalued and performing well.

They point out that the stock market, though small, anticipated the collapse of 1982 and could well be an accurate barometre of recovery. Commercial credit to the private sector last year rose 17 per cent in real terms, another sign of recovery.

Evidence

Other evidence of recovery came in the 7 per cent increase in electricity demand. Since this was double the growth in GDP, economists contend that the "informal" economy run by the private sector also expanded.

The real health of companies is hard to tell since those with audited accounts switched last year for the first tima to full inflation accounting, and many businessmen are still confused as to the real meaning of the balance sheets. The return to profitability is often being gauged on cruder factors such as wages being held steady, cuts in inventories, weeding out or freezing investment and improved cashflow.

Companies have also been helped by the introduction of a government foreign exchange risk fund (FICORA) protecting some $12bn of the $18bn private foreign debt. In this way companies receive e credit line in pesos for an amount equal to the foreign debt plus a premium of 12.38 per cent.

So far the switch to exports has been limited. Manufacturers have generally been afraid to test their surplus capacity on foreign markets, except those operating close to the U.S. border; but most of the industry there—especially the "maquiladora" business—is geared to cross-border trade anyway.

Significantly, when there were clear signs of recovery in the last quarter those manufacturers who had begun to look abroad were tempted to concentrate once again on the domestic market. This is the market they know, and it is after all highly protected.

Few dispute the need for liberalisation; but from principle practice still seems a long way. Nevertheless, the shake-up of the past two years has made companies far more competitive, and liberalisation must be the next challenge for the private sector.

Sectoral medium-term forecast 1985-9
(percentage changes)

	1984	1985	1986	1987	1988	1989
INDUSTRIAL PRODUCTION	4.3	4.4	6.1	7.0	6.8	6.2
MINING	1.6	2.5	3.0	4.0	3.0	3.9
Crude petroleum	0.8	2.0	4.0	5.0	3.5	3.5
MANUFACTURING	4.7	4.5	6.0	7.0	7.3	7.5
Oil derivatives	8.1	7.5	9.0	10.0	7.0	7.0
Petrochemicals	0.7	2.5	5.0	5.5	6.0	6.0
Chemicals, rubber and plastics	7.2	5.0	6.0	7.0	8.0	8.0
Automobiles	25.4	4.5	6.0	7.0	8.0	9.0
Electro-domestic appliances	−21.0	−5.0	0.0	5.0	8.0	10.0
Electrical and electronic equipment	7.4	5.0	6.0	7.0	8.0	8.0
Machinery and equipment	2.7	9.0	12.0	8.0	5.0	3.0
Basic metals	12.6	12.7	9.7	6.7	4.7	2.7
Iron and steel	13.0	13.0	10.0	7.0	5.0	3.0
Non ferrous	10.5	11.0	8.0	5.0	3.0	1.0
Glass	3.0	4.0	5.0	7.0	3.0	2.0
Cement	8.0	9.0	8.0	8.0	5.0	3.0
CONSTRUCTION	3.7	5.0	8.5	9.1	6.8	1.0
ELECTRICITY	7.0	6.5	7.0	8.0	8.5	8.5

Source: Ecanal.

PROFILE: MONTERREY GROUPS

Complex rescue from bankruptcy

LIKE VICTORIAN gentlemen, Mexico's large private companies have come to be judged by their debts. Top of this league are the four Monterrey-based groups—Alfa, Visa, Vitro and Cydsa—owned by the various branches of the Garza and Sada families and until the 1970s part of the same empire.

Between them they have foreign debt of nearly $5bn, the largest single concentration of private foreign debt in Latin America.

All four groups have gone through a profound and sobering metamorphosis since the shock of 1982 when devaluation, over-expansion and the sharp recession combined to turn many of the companies in the groups into technical bankruptcy. Arguably, the rescue of these four groups represents one of the most impressive achievements of the Mexican recovery.

The most complex rescue operation has been that of the largest group, Alfa, with several financial details far from complete. Alfa's core business is steel, petrochemicals, synthetic fibres, paper and packaging, capital goods, and agro-industries conducted through some 117 companies. Before its rescue in 1983, Alfa had accumulated huge foreign obligations of almost $2.5bn.

The principle difficulty in reaching a deal with its creditors lay both in the complex inter-relationship of the subsidiaries to the principle holding company and the need to ensure the normal operation of the group, which if not maintained would have had serious repercussions throughout the economy.

The Alfa group accounts for 4 per cent of Mexican exports and its tax bill is half the budget of Nuevo Leon state, of which Monterrey is the capital. Its debt is split roughly one third in its steel operations (Hylsa), one third in the holding company and one third in the remainder.

The basis of the agreement now being worked out with the international bank is that $300m of debt be converted to common stock equivalent to 30 per cent of Alfa's equity; convert $50m into 12-year convertible debentures, capable of creating a further 15 per cent of equity; with the rest to be repaid over 12 years at 10 per cent fixed interest with five years' grace. So far 60 per cent of the lenders have agreed to the scheme, due to be backdated to January, 1984.

The novelty of the deal is converting debt into equity. Although the $300m is seen more as a write off there will be the possibility of trading the shares against the day Alfa returns to profitability. This part of the agreement will also require government approval since it involves a foreign stake in a key company. The other groups have not felt the same need to opt for the debt for equity conversion. Visa, for instance whose core activities are brewing, soft drinks, foodstuffs and packaging, has settled its $1,034bn debt with 10 year floating rate notes 2 per cent above Libor.

Limitations

With four years' grace, Visa will then make semi-annual payments representing 50 per cent of the issue, with a 50 per cent balloon payment at the end, which in practice will be rolled over.

Vitro in return has accepted limitations on dividends of its subsidiaries. Cydsa sought to avoid this limitation renegotiating its $431m debt and effectively succeeded after lengthy talks concluded in March. The importance for Cydsa, mainly involved in the manufacture of synthetic and artificial fibres and yarns, was to be able to rely on cash flow from dividends of its subsidiaries. In all instances peso obligations have never been more than 5 per cent of total liabilities.

However, the foreign exchange risk of the debt has now been covered by a special government sponsored trust (FICORCA). This scheme opens up a peso credit line equivalent to the debt payable in foreign currencies. These pesos in turn are used to acquire dollars from FICORCA for the total covered debt. These dollars are then deposited with FICORCA and used to repay both principal and interest. At the same time the government has waived a 15 per cent withholding tax on interest paid on foreign loans, thus strengthening the companies cash flow position.

Bank creditors demanded a substantial rationalisation of activities. Investment plans were frozen and non-core activities scrutinised, leading to divestiture. Alfa froze its petrochemical and steel expansion plans and decided to halt further involvement in tourism and real estate.

It sold off its shares of joint ventures with Moulinex, Philco (washing machines), Agromac (tractors) and its 25 per cent stake in the big media and communications company, Televisa. Visa sold off its nine vessel fishing fleet and divested its chicken breeding and pig farming operations. Cydsa decided to pull out of a capital goods venture with Caterpillar (Conek) which had been signed up just before the crash.

Other economies have been made to cut inventories. Before 1982 stocks of raw materials were frequently for one year while credit on sales was very generous with a minimum 180 days. Now stocks are down to a maximum six months and credit is down to 60 days.

The companies have also sought to become self-sufficient in foreign exchange. Alfa already had a $70m surplus; but Visa relied on imported aluminium to make drinks cans and had to buy foreign exchange. Now it has switched to returnable glass bottles (from Vitro whose principal business is glass manufacture) and locally-made metal cans.

Everywhere margins have been cut—less in base industrial products and more in the case of consumer goods. For instance, to retain its market share Visa lowered its margins 4 per cent in 1983 on beer sales but still they were down 14 per cent. Margins were lowered again slightly last year and sales were rewarded with a 7 per cent rise.

Significantly, rationalisation has rarely been extended to the labour force. The Grupo Monterrey has had a paternalistic policy towards labour, encouraging independent unions from the officially sponsored ones of the PRI. Alfa, for instance saw its workforce fall only 3 per cent to 30,576 last year; in Cydsa the numbers were almost unchanged while the largest cut came in Visa down to 33,000 against a high of 34,000 in 1982.

Signs of recovery last year were evident in the growth of certain sectors. Alfa saw its automotive activity rise 26 per cent (although this was essentially due to exports to the U.S.) but its basic metals were also up 12 per cent. The improvement in sales, generally up in real terms between 10 and 15 per cent, for the four groups, aided cash flow.

Coupled with the rationalisations, consolidated net income improved. In the case of Visa it swung from a negative pesos 3.9bn. to a positive pesos 15.3bn; while Alfa with a greater burden of debt raised consolidated net income from a negative pesos 503m. to pesos 2.1bn.

Even though Alfa was not able to meet all its debt obligations in 1984 the group's financial managers are cautiously optimistic that the group can pull through and begin expanding again soon. The same sense of cautious optimism is also expressed by the other groups. Nevertheless, the groups remain very highly geared.

Visa, for instance, has a capital debt ratio of 7—1. The continued delicacy of the companies' finances further pose major question marks over their ability to find fresh funds.

R. G.

The often-crowded resort of Acapulco on the Pacific coast, still a favourite spot for many Americans and Mexicans. The government is now promoting the establishment of completely new holiday places in remote areas.

State creates new resorts

Tourism

ROBERT GRAHAM

BEFORE THE Mexican Government decided to turn the remote village of Cancun into a major tourist complex fewer than 120 people were living there, in a tiny fishing community. The first two hotels opened in 1974.

Now there · 25 hotels with a capacity o· ·,00 rooms and a town popul. ion of 100,000. The remarkable development of Cancun, on the tip of the Yucatan peninsula, underlines the single-minded way in which the Government has gone about promoting tourism in recent years.

The Cancun project was Government-sponsored with the state providing all the infrastructure (including an international airport) and a good deal of the credit for the hotels. Without this strong state backing the project would never have prospered since the area has no facilities and is surrounded by jungle.

Now there are 730,000 visitors annually, a mix of convention business and pure vacation. This provides annual foreign exchange earnings of $217m, equivalent to 12 per cent of Mexico's total hard currency from tourism.

The success of the Cancun venture, coupled with the need to find hard currency to meet Mexico's external debt, has focused new attention on the country's tourist potential. Last year 4.7m tourists visited Mexico, generating earnings of $1.9m. With the huge variety of tourist options on offer in Mexico, from Caribbean and Pacific coasts to magnificent pre-Hispanic monuments and a wealth of colonial architecture, the room for expansion exists.

The authorities want to stimulate private investment while the state continues to play the role of catalyst in promoting major new developments. From a high in 1981 investment fell back sharply during the economic crisis and only picked up again last year. In 1984 total investment was Pesos 91m, with Pesos 61m coming from the private sector and Pesos 30m from the state—the biggest sectorial jump in investment throughout the Mexican economy, up almost 400 per cent on the previous year.

The principal vehicle for tourism promotion is the State agency, Fonatur. Created in 1974 as a result of a merger of separate Government institutions promoting and financing development, Sonatur is the singly most important catalyst in the industry. The central element in Fonatur policy has been to select areas for development, mostly untouched, and create big new centres like Cancun.

Since its inception 10 years ago Sonatur has invested Pesos 143bn out of a total Pesos 218bn by the public and private sector. Development sites have been chosen with a view to the main market—North America—and the socio-economic needs of Mexico's various states. Sonatur projects generate 17 per cent of all tourist income.

The principal developments being carried out by Sonatur are in Baja California et Los Cabos and Loreto, at Ixtapa north of Acapulco and, the most recent, at Huatulco in Oaxaca state below Puerto Escondido. The latter is a virgin site in a beautiful but very undeveloped coastal region of the Pacific.

There are two main village communities of 1,500 and 2,200 people in the 35 by seven km area selected for development.

By the year 2,000 it is planned to have installed 7,800 rooms accommodating 875,000 visitors a year and with 101,000 residents. This is the kind of transformation that occurred in Cancun.

But Fonatur intends development to differ in several respects from its previous venture. Development will be less high density and a great effort will be made to establish the complex as self-sufficient, relying on the resources of Oaxaca state. This reflects a new emphasis on job creation and the indirect regional spin-off from these projects.

In the case of Huatulco, the construction of an international airport will open up a region which at present has limited port facilities and is linked to the interior by tortuous mountain roads. From providing less than 3 per cent of Oaxaca state's GDP, tourism will within a decade generate 16 per cent. Cancun now provides 38 per cent of Quintana Roo state's GDP.

Within four years the projects in Baja California will ensure that tourism accounts for 38 per cent of production there. All these regions have been traditionally poor and tourism is an important factor for change.

Foreign investment so far has been limited and restricted to four and five-star hotels. One of the largest involvements is that of Club Mediterranean which has a number of ventures including investment in a hotel chain sited near well-known monuments. Club Mediterranean is also close to two new investments including one at Huatulco. Westin Hotels are also prominent while Lonrho is the only British group to be active.

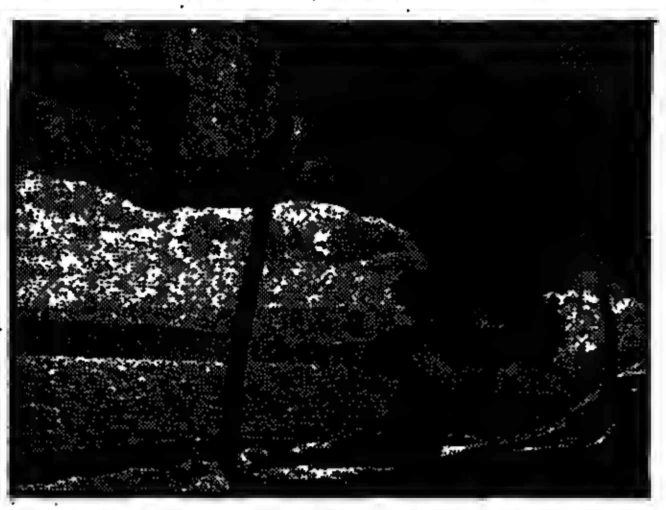
Trusthouse Forte has recently been courted by the Mexican authorities but has yet to make a commitment. A number of Mexican investors have been badly burned by the 1982 crisis especially in apartments, and time-sharing ventures. Also a number of industrial groups which diversified into tourism during the boom are now selling off these investments.

Mexican tourism was an important element in hotel occupancy, and declining incomes have affected hotels in the medium lower range, especially in the smaller resorts.

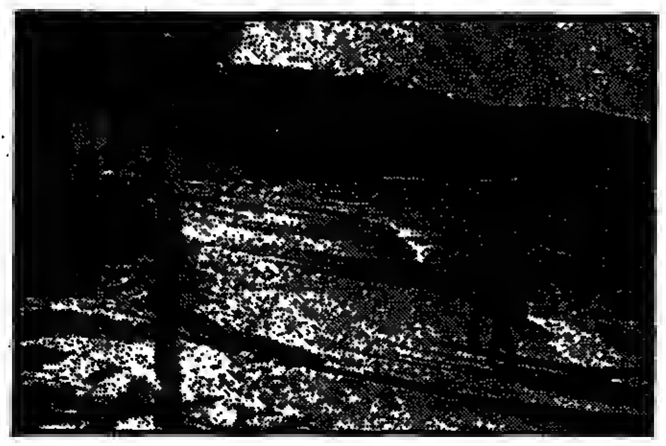
The bulk of foreign tourists — more than 90 per cent — are North Americans. The authorities do not count as tourists the 6-7m who annually make brief crossings of the U.S.-Mexican frontier, but count only those who come into the interior of the country. Mexico manages to attract one-fifth of all Americans who take foreign holidays, half coming from the U.S. West Coast.

This makes Mexico enormously dependent on U.S. business and the fickleness of American tourism. For example, widely publicised bad treatment of U.S. tourists in Mexico by the American Press, and concern for the safety of U.S. citizens in certain places like Guadalajara and Puerto Vallarta has led to threats recently from the State Department to put out an advisory note against travel to such places. A move of this kind could have serious consequences for the flow of American tourists.

The authorities would like to attract more European tourists but realise that the key factor is establishing cheap air fares. In the case of the UK there are no direct flights, and fewer than 18,000 visitors come to Mexico a year. The Mexican Government has been trying to convince BA to establish a direct air link as of next year, but so far there is no firm commitment.



Above: fisherman mending his nets on the shore of Lake Chapala in central Mexico. Below: Puerto Escondido, on the as yet undeveloped Pacific coast. The government is anxious to promote new coastal resorts and encourage tourists to visit the sparsely-populated interior.



Assets on a world scale

Mining

RONALD BUCHANAN

MEXICO's mining sector is recovering despite the depressed world market, which is holding up plans for expansion of the nation's extraordinary potential.

Silver production, in which Mexico leads the world, rose 4 per cent by volume and more than 20 per cent by value last year. But output of copper, whose world price is particularly depressed, slumped by 9 per cent in volume and 21 per cent by value. In all, production of metals and minerals rose from 7.8m tonnes in 1983 to 8m in 1984.

Since the beginning of his administration, President Miguel de la Madrid has announced plans to focus special attention on the mining sector, which has long rivaled tourism and the earnings of the in-bond plants on the northern border as the second important generator of foreign currency earnings after petroleum.

But fortune in the world markets has not favoured him. Copper, planned as one of Mexico's growth areas, suffered a 15 per cent slump in its international price last year. As a result, expansion plans are well behind schedule at the two plants in northern Sonora state which account for 90 per cent of output—Mexicana de Cobre's La Caridad mine and the neighbouring facilities of Cananea. Both mines have also been hit by labour problems.

Most of the dynamism in the sector is currently coming from the private sector, particularly from such major companies as Industrial Minera Mexico (IMM) and Industrias Penoles, which are both pushing ahead with major silver exploration efforts.

The dynamism in the private sector is hardly surprising. The nationalisation of the banks was followed by a long period of doubt for mining. Since the banks held substantial holdings in mining, their nationalisation pushed the state's share of the industry from roughly half to 70 per cent.

But divestment of the banks' holdings has brought their mining interests back into private hands (in most cases existing shareholders in the companies snapped up their options to the shares).

The move has returned to the private sector both Frisco and Real de Angeles (a joint silver-mining venture in the state of Zacatecas in which Frisco's partners include Placer Development of Canada). Frisco had become 70 per cent Government-owned because of the nationalisation of the shareholding of Bancomer, the nation's biggest bank.

State-owned mines accounted for 42 per cent of total production last year. The private-sector majors contributed 46 per cent and the remainder was produced by small- and medium-sized businesses whose operations (many of which are now uneconomic because of prevailing world-market conditions) are being propped up by government aid through a world bank-funded project.

Although the long-term prospects are bright, in the near future the world market seems likely to dictate that Mexico can do little more than consolidate its position as one of the world's leading mining nations. But the potential of a country which is among the world's five leading producers of no fewer than 14 minerals is difficult to underestimate.

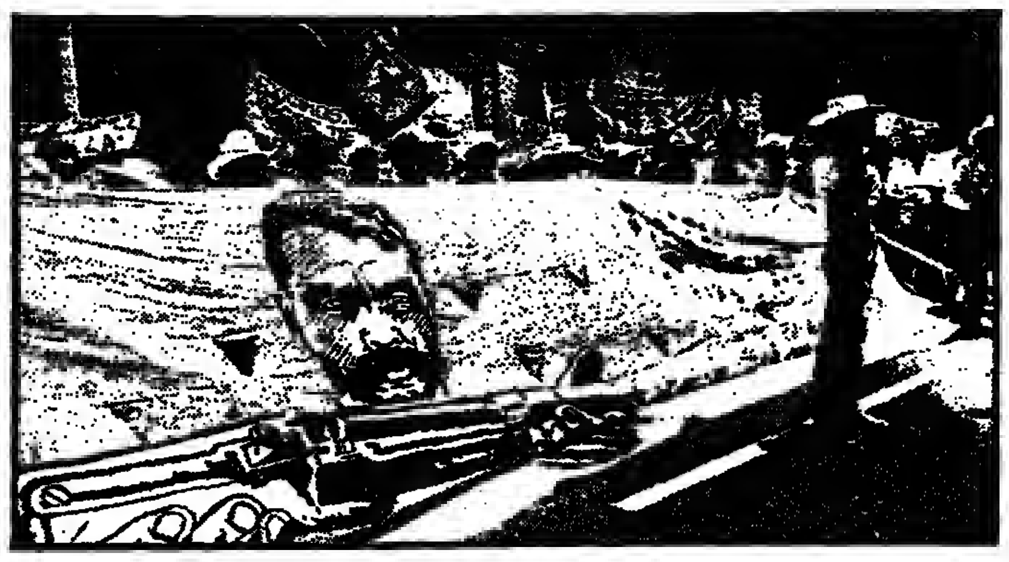
Mexico's mining output

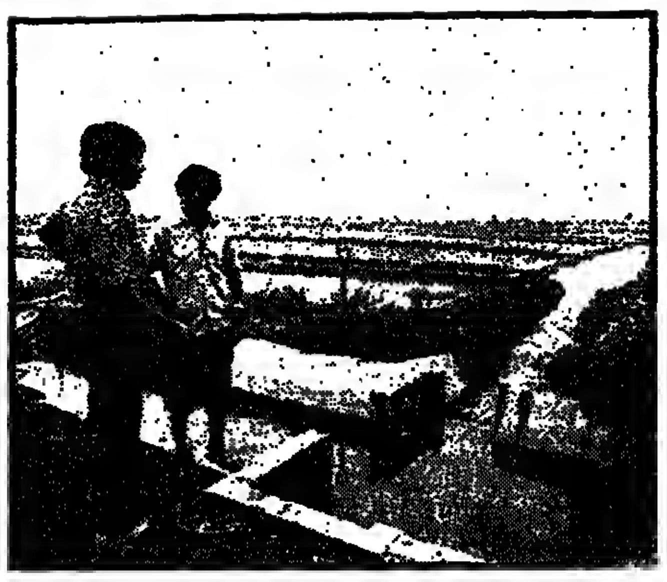
(production of selected minerals, 000s tonnes)

	1981	1982	1983	1984
Silver	1.65	1.55	1.91	1.99
Copper	230.5	239.0	206.0	189.1
Lead	157.4	145.9	167.4	183.3
Zinc	211.6	231.9	257.4	290.2

Source: Mexican Mining Chamber, Planning and Budget Ministry.

Cash pours into rural development





Above: Peasants carrying a banner representing Emiliano Zapata, legendary leader of the *1910-20* Mexican Revolntion, arrive at the Agrarian Reform Ministry after marching from southern Mexico last year. They demanded the break-np of large land-holdings, higher guaranteed prices and an end to repression.
Right: A Ministry egronomist discusses rice irrigation with a farmer at an ejido (communal farm).
Below: Teaching in the oil-prodncing state of Tabasco. Four million Mexicans do not speak Spanish and bringing education to remote communities is a *government priority.*

Agriculture
RONALD BUCHANAN

MEXICO IS pumping $5bn into "integral rural development" from now to the end of 1988 *through* a *programme, known* as Pronadri, which recognises the potential political costs of previous *governments'* failnres to raise living standards in the countryside.

Where the national food programme, or SAM of Sr Jose Lopez Portillo's 1976-82 administration focused on boosting production through subsidies, Pronadri takes a much more political view of rural development.

In launching the programme President Miguel de la Madrid warned: "We are still a nation with a great potential for violence which derives from our social and cultural conditions and also from social inequality itself."

Pronadri reiterates the traditional formulae of production-oriented subsidies, but its concept of "integral development" comprises everything from schools and hospitals to highwey construction.

"In the past," says Dr Kenneth Shwedell, senior agricultural analyst at Banco Nacional de Mexico, "the rural population has heen placated by land redistribution, internal migration to major urban centres or by going, as *braceros* to the United States. Pronadri is an *acknowledgement* that these safety valves are no longer open."

The countryside *still* houses more than a third of the nation's population and no traveller to the hinterland of rural Mexico would deny the urgent need for improvements to social and economic infrastructure, but the plan is being met with scepticism on two accounts.

At least part of the $5bn is to come from *funds elready* allocated to the government departments involved, but if vagaries such as those of the International oil market force Mexico into further austerity measures, a major question mark must hang over the funding of any programme that can promise no immediate financial returns.

Moreover, independent analysts say, the programme adds little in strictly egricultural terms to its predecessors. Though the SAM's goal of self-*sufficiency in basic grains* bas metamorphosed into the more nebulous concept of "food *sovereignty,*" the *realism of* Pronadri's targets is already being questioned.

Says one analyst: "Food supplies have and are being used as a political weapon in many parts of the world. It would be foolish of any Mexican Government to become over-dependent on sncb a powerful neigbbour as the United States. But I don't believe total *self-sufficiency* in basic grains is possible for Mexico at any acceptable cost."

Mexico's richly-varied topography and micro-climates, though a *delight* to the *tourist,* are a nightmare to the agronomist seeking economics of scale. Irrigation has reached a point at which substantial improvement could be achieved only at a cost beyond the means of today's cash-squeezed Mexico, and the revolution's legacy has been a land-holding structure dominated by nneconomic *minifundios.*

About balf of Mexico's agricultural land is held by *ejidos, rural* communities that give land to peasants in perpetuity as long as they farm it themselves. The ejido system predates the Mexican revolution, bnt its promotion was one of the battlecries of Emiliano Zapata, champion of Mexico's landless masses (ironically, Zapata's grandson, also named Emiliano, is a lendless peasant, born too late to be given a share of the ejido land *in his region*).

Work on an irrigation system in Tomatlan, in the state of *Jalisco.*

Most ejido land is worked in small, individual lots, but some operate collectively. In both cases, commercial levels of productivity are the exception rather than the rule. "Ejidos," says one anelyst, "have proved to be a highty successful instrument of *political* control. They have saved Mexico from further revolution or mass starvation. But *they* most certainly are not organised primarily as production units."

Half of the non-Ejido farmers have plots of five hectares or less and report annual earnings equivalent to only 90 days at the minimum wage. The remainder can be classified as commercial farmers though only e minority, mainly concentrated in the export-orientated vegetable-producing regions of north-western Mexico, meet truly international standards of competitivity.

Smiled

Curiously in a country whose politicel system bases its legitimacy on an Agrarian revolution, Pronadri is the last of this administration's major sectoral programmes to be published. In the meantime, fortune, in the shape of "Eisenhower weather" has smiled on Sr de la Madrid. Climatic conditions in the first three years of his administration bave ensured relatively good crops in all of them.

Nevertheless, there seems to he no alternative to continued heavy subsidies for Mexican agriculture in the foreseeable future if social peace is to be maintained as the population increases. In the end, a definitive solution to Mexico's rural problems will probably emerge not in the countryside, but in the cities as a modern industrial base emerges capable of absorbing large masses of surplus labour.

PROFILE: CONASUPO

An archetype of state enterprise

FROM BISCUITS to bulk *sorghum imports, Conasupo* (Compania Nacional de Subsistenclas Populares) dominates the supply of food and basic commodities in Mexico. The $6bn bndget it shares with its 15 affiliates is second only to Pemex in the state sector, and at least $1.4bn of it is subsidy.

Conasupo's primary function is that of supply, says Jose Ernesto Costemalle, the company's *director* general, bnt it interprets the concept widely. Conasupo tenders for imports of basic grains (until recently it had a monopoly in this area), and runs a retail chain which includes *everything from* urban supermarkets to rafts bringing beans and biscuits to the jungle dwellers of Tabasco.

Archaic

The company attempts to bring order to Mexico's archaic wholesale network by buying prodnce direct from peasant farmers and thus supporting the official price structure. Its manufacturing affiliates turn out dairy produce and vegetable oils.

In many ways, Conasupo is an archetype of Mexican *state* enterprise. Its critics claim it is an octnpus, *stifling* competition, wallowing in subsidies and paying e heedless disregard to budgetary *limitations.*

Sr Costemalle, who rose from the ranks of the company's financial managament, admits that budget overruns were common in the past, but he claims that unrealistic targets were to blame.

"This year, we have been given a realistic budget which we should be able to keep to," he says. "Subsidies go only to such basic *foodstuffs* as beans end tortillas. The social cost of removing them wonld be impossibly high right now.

"Bnt all our commercial operations have to stay in the black. They receive no subsidies whatsoever."

Sr Costemalle defines the purpose of Conasupo's intervention in markets as that of regulation. "We lost onr monopoly on basic grain imports because we could regulate *the markets without it.* In fact, onr position bas been strengthened as a result, because the private sector importers are now picking up the tab for costs that we were absorbing for them."

D.G.